

French economy*How the franc was saved*

Page 15

Euro Disney*The bare necessities*

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Section III

Home entertainment

Section IV

Tomorrow's Weekend FT*How the Pequot tribe turned the tables on their conquerors*

RETAILS DIVISION

FINANCIAL TIMES

Europe's Business Newspaper

FRIDAY NOVEMBER 20 1992

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Gatt negotiators hope to reach deal on oilseeds

US and EC trade negotiators claimed there was "a serious chance of making a deal" on EC oilseeds subsidies and averting a trade war. The optimistic comments came as talks resumed in the Uruguay Round of world trade reforms.

However the mood behind the scenes was less optimistic, with observers saying the two sides were still far apart on critical issues. Page 16

Daimler-Benz, Germany's biggest company, posted an 8 per cent fall in net profits to DM1.27bn (\$785m) for the first nine months of this year, a performance attributed to "unexpected difficulties" in its vehicles divisions. Page 17; **Daimler-Benz** rules out Daf stake, Page 26; **Lex**, Page 16

Euro Disney confirms analysts' fears

Euro Disney, beset by controversy since it opened its Euro Disney theme park in April, confirmed analysts' gloomy predictions by announcing a loss for last year.

The results, the first annual figures to be published since Euro Disney's launch, reveal a loss of FFr1.800m (\$35m) for the year ended September. Euro Disneyland, whose chairman Robert Fitzpatrick is pictured at a press conference yesterday, warned of further losses for this year. Page 17; **Lex**, Page 16

Clinton meets Congress leaders US President-elect Bill Clinton set out to establish a good relationship with Congress in meetings on Capitol Hill with leaders from both parties, focusing on health care, economic stimulus and budget deficit reduction. Page 5

AT&T, US telecoms company, plans to float 15 per cent of AT&T Capital, its equipment leasing and finance subsidiary, in a move aimed at giving the unit greater financial independence. Page 20

Olympia & York, once the world's biggest property developer, is likely to shrink to a modest-sized property manager during the next few months under an agreement with its creditors. Page 17

Volvo, Swedish motor vehicle group which has substantial cross-shareholdings with Renault of France, reported a SKr700m (\$115m) loss after financial items for the first nine months of 1992. Page 17

N Korean military aid Russian president Boris Yeltsin, seeking to cement ties with Seoul, told the South Korean parliament he was suspending military aid to North Korea. Page 6

Pretoria rejects Goldstone findings The South African government rejected evidence from a judicial commission suggesting that the army had plotted to undermine the ANC. Page 6

Greece joins WEU The Western European Union will today expand its role as the fledgling defence arm of the EC by welcoming Greece as a full member, but Denmark and Ireland have only agreed to observe status. Page 2

Protests at Thai stock plunge Investors protested outside the Stock Exchange of Thailand for the second day as share prices continued to plunge in response to government moves to control speculators. Page 6

HDTV dead faces delays Agreement on Ecu850m (\$1bn) of funding to promote wide-screen high-definition television (HDTV) in the EC could be held up until after the Edinburgh summit.

Savimbi backs down Unita rebel leader Jonas Savimbi, whose refusal to accept the outcome of last September's elections has threatened Angola with renewed civil war, is reported to have now accepted the first-round results. Page 6

Bond cleared Alan Bond, the bankrupt Australian entrepreneur, was cleared by a Perth jury of dishonestly inducing a businessman to take part in the A\$370m (\$235m) rescue of a collapsed merchant bank run by a fellow entrepreneur. Page 6

Tourist attacks to continue A leader of a Moslem militant group fighting to overthrow the Egyptian government says it will keep up its attacks on tourists until the state stops torture, releases detainees and allows it to preach freely.

Japan's securities houses Giving up hope for a rapid return to the free-spending 1980s, Japanese securities houses have drawn up plans for survival in bleaker times. Page 21

STOCK MARKET INDICES

FTSE 100: 2,706.2 (+2.2)

Yield: 4.6%

FTSE Eurotrack 100: 1,847.93 (-4.3)

Nikkei: 16,871.31 (+0.15)

New York Stock Exchange: 1,284.33 (+0.47)

Dow Jones Ind Av: 3,207.72 (+1.26)

S&P Composite: 422.94 (+0.08)

US LUNCHTIME RATES

Federal Funds: 2.5%

3-mo Tres Bills: 3.39%

Long Bond: 10.1%

Yield: 7.5%

UK LONDON MONEY

3-mo Interbank: 7.1% (7.4%)

Life long gilt: 10.1% (10.0%)

10 MORTGAGE SEA CH (Argus)

Bond 15-day (Int): 5.18/4.95 (10.07)

UK Gold

New York Comex (Nov): \$335.3 (335.2)

London: \$334.15 (335.2)

Tokyo close: £22.88

Austria: Schilf: Greece: Dr250: Lux: LF100: Qatar: OR1200

Bahrain: Dr1,250: Hungary: Ft102: Malta: Lrd150: S.Africa: SR111

Belgium: BF100: Iceland: Kr100: Morocco: MD115: Singapore: SGD100

Bulgaria: Lv25: India: Re20: Neth: Ft 3,500: Spain: Pta200

Cyprus: Cr1,00: Indonesia: Rp100: Nigeria: Ar100: Sweden: Kr114

Czech: Kc100: Estonia: Et100: Norway: Nkr1,000: Switzerland: Fr1,000

Denmark: Kr14,114: Italy: Ls1000: Oman: Or1,500: Syria: Sd1,000

Egypt: Es1,50: Jordan: JD1,50: Pakistan: Ps1,000: Thailand: Baht

Finland: FM1,12: Korea: Won 2,500: Philippines: Ps65: Turkey: Ls600

France: Fr1,50: Kuwait: Fls,000: Poland: Zl 22,000: Turkey: Ls600

Germany: DM4,30: Lebanon: US\$1,25: Portugal: Es1,93: UAE: Dh100

IRELAND: Irl100: Norway: Kr100: Portugal: Ps1,000: Sweden: Kr1,000

Switzerland: Fr1,000: Turkey: Ls600: UK: Pst1,000: Yugoslavia: D100: Zimbabwe: Z\$100

YUGOSLAVIA: D100: Zimbabwe: Z\$100

STERLING

New York: Nymex: S: 1,827

London: S: 1,828.50: (1,821)

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DM: 2.42: (2.43)

FF: 1.18: (1.175)

SP: 2,100: (2,125)

Y: 100.25: (100.25)

2 Index: 70.4: (71.1)

EUROPEAN CURRENCIES

New York: Nymex: S: 1,827

London: S: 1,828.50: (1,821)

DM: 2.42: (2.43)

FF: 1.18: (1.175)

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New York: Nymex: S: 1,827

London: S: 1,828.50: (1,821)</p

NEWS: EUROPE

UK accused of holding up TV deal

By Andrew Hill in Brussels

BRITAIN was yesterday accused of abusing its position as European Community president and hampering progress towards an agreement on European high-definition television (HDTV).

At a meeting of EC telecommunications ministers, the UK refused to issue a statement backed by its 11 EC partners calling for another meeting after the Edinburgh summit to discuss funding for an EC HDTV strategy.

Instead, Mr Edward Leigh, the British industry minister, chairing yesterday's meeting, said the UK would "reflect" on the demands and decide after next month's summit.

Britain has several times been accused of putting its national interests above those of the EC during the six-month presidency. In particular, other EC members have attacked the UK's insistence on a detailed reexamination of the EC budget proposals for 1993-97.

Mr Leigh's stance incensed the European Commission and

other ministers. Mrs Hanja May-Weggen, the Dutch transport and communications minister, told journalists Britain was "sabotaging" progress towards an accord.

Britain opposes the Commission proposal to pump Ecu50m (£1bn) of EC funding into the promotion of wide-screen HDTV over five years.

Yesterday 10 member states - all except Britain and Denmark - agreed to back the substance of the Commission's HDTV action plan, conditional on later budget decisions.

Sitting alongside Mr Leigh at a press conference afterwards, an angry Mr Filippo Maria Pandolfi, EC telecoms commissioner, said: "In my judgment everything is ready for an agreement except the financial position."

Formal agreement on the action plan, which would fund consortia wanting to provide wide-screen TV services in Europe, has to be unanimous.

Britain said its proposal on the vital cash element of the plan was backed by six other member states.

Growing markets for 'green' goods

By David Gardner in Brussels

TIGHTER environmental standards offer business "huge opportunities" in the fast growing market for "green" goods and services, a conference on European business and the environment heard yesterday.

Mr Michael Howard, UK environment secretary, said the market for environmental goods was already worth more than the global aerospace industry, at some \$200bn a year. Over the next eight years, he said, the total market would be worth \$350bn in the EC and \$1,000bn in the US.

CONTRACTS & TENDERS

TENDER NOTICE FOR TOLL WESTERSCHELDE CROSS-RIVER CONNECTION (WCRC)

On behalf of the province of Zeeland the WCRC project director invites parties interested to apply for financing and realising the construction of the Westerschelde Cross-River Connection including connection with the existing road network, as well as operating and providing for the maintenance of this connection.

Exclusion: On 27 March 1992 contracts were concluded with two international combinations of firms for designing and submitting a quotation for the construction of the WCRC not later than December 5 1992.

The province of Zeeland also is interested to obtain bids for financing, realising the construction of and operating the permanent cross-river connection over the Westerschelde including connections with the existing road network. Parties interested are invited to apply.

With reference to the realisation of the Westerschelde Cross-river Connection, the Planned Road Memo/Environmental Impact Statement (MER) (tentatively) mentions a sum of ca. NLG 850 million (based on the price level January 1 1989), excluding both VAT and the costs of the connection. The amount of the toll will consist of a sum of 10% of the cost of toll income (the operating company will be entitled to collect toll physically), an annual subsidy from the government (national and the province of Zeeland) and other revenues to be generated. According to planning the WCRC can be opened for traffic on January 1 2000.

The operating period for the company is in principle 30 years, commencing on the opening date of the WCRC. After expiration of the operating term the WCRC (including connection with the existing road network) must be transferred entirely free to the government authorities. The agreement to be concluded is due concern between the government and the province of Zeeland will have to be approved by the Zeeland Provincial Council.

Further Information: Information concerning the pre-selection procedure and a number of preconditions can be found in a summary Dutch-language brochure about the project. An English-language version is also available. The brochure contains a special application form to be used by parties interested. This brochure can be obtained from the WCRC project director on the following address:

Province Zeeland - Directie Milieu en Waterstaat
Projectdirecteur Westerschelde Oeververbinding
Het Groene Woud 1
Postbus 165
4330 AD Middelburg - Nederland
Telephone (31) (0) 1180-31700
Telefax (31) 57881
Fax (31) (0) 1180-34756

Please in capital letters on the envelope:
WESTERSCHELDE OEVERVERBONDING
Application:

Parties interested must apply in writing in the Dutch language using the aforementioned application form. The form must be submitted to the WCRC project director no later than December 23 1992 17.00 hours. Applications received after that date and applications submitted without using the special application form are invalid and will not be dealt with.

The application must contain particulars proving that the party interested:

(a) can provide the necessary funds;
(b) is or has been actively involved over the past 10 years in financing a large-scale project with an equivalent level of investment;

(c) possesses sufficient financial capacity, with in principle a minimum-limit equity of NLG 250 million;

(d) possesses the quality necessary for the WCRC project (for example, in the field of financial-economic expertise and project management).

An enterprise or a joint venture of enterprises may apply. By enterprise is meant financial institutions, pension funds, insurance companies, institutional investors, etc. Each enterprise, in joint venture with other enterprises or not, can only apply once.

Parties interested that meet criteria (a) through (d) according to the judgment of the selection committee set up by the WCRC project director, will be selected by the province of Zeeland to tender. Parties who had applied will be notified in writing concerning the selection outcome as soon as possible. The decision of the province of Zeeland is final and binding.

From the submitted application a maximum of five parties will be selected for tender. By submitting the application form, parties interested agree on the procedures described above and in the summary brochure.

The above named project director,
T.G. van der Meer
For the prescribed terms prevale the publication is the Official Journal of The European Community.

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Sudden central bank decision takes prime minister by surprise

Sweden admits defeat in battle for krona

By Robert Taylor
in Stockholm

THE sudden decision to float the Swedish krona yesterday afternoon by the central bank took even the government by surprise. Mr Carl Bildt, prime minister, was given just 10 minutes' notice by central bank governor Mr Bengt Dennis of what had to be done to stem the huge outflow of capital from the country.

A shaken and bewildered Mr Bildt said the krona would not float "for some time" but he asserted: "You cannot run an economic policy with a floating exchange rate." European countries cannot be floating against each other. It won't work. I don't believe in this policy."

More problematically, the previous bipartisan support for tough measures was missing yesterday. In September the main opposition joined forces with the government in hammering out two crisis packages to eliminate the burgeoning budget deficit and improve

internal cost competitiveness. There was an impressive display of national unity and not a serious voice raised in support of devaluation.

"Against all the odds we succeeded," said Mr Bildt. "But we [Sweden] were always alone in our defence of the fixed exchange rate policy." It meant draconian interest rates, with a symbolic 500 per cent for a few days imposed by the central bank on its overnight lending to the banks.

Since last Thursday Skr150bn had flowed out of the country, compared with Skr60bn over the three weeks of the earlier crisis.

There is no immediate threat to the four-party coalition. But without Social Democratic support, Mr Bildt's latest Skr60bn (\$3.3bn) package announced yesterday morning to try to avert the crisis already lacked political credibility, especially as the other main opposition party, the right-wing New Democracy came out for floating the krona.

But it is hard to believe this would have been enough to calm the markets. The central bank admitted Sweden's financial position was far graver than in September.

Since last Thursday Skr150bn had flowed out of the country, compared with Skr60bn over the three weeks of the earlier crisis.

The trouble started on November 12, when market interest rates began to rise sharply on hearing of the poor results of the Swedish National Debt Office's issue of \$2bn (\$1.3bn) bonds as part of its emergency borrowing programme to replenish the country's reserves and help fund the budget deficit.

As the central bank admitted yesterday this pointed to "rising difficulties" in reducing the budget deficit of Skr160bn for the current financial year.

For the first time since September capital began to flow out of the country. The central bank

acted last Friday to dampen interest rates by buying Skr50bn of Treasury bills, but this made little difference.

At the start of this week foreign as well as domestic players began to sell Swedish krona in increasing volume. The arrival of large US banks on the scene on Tuesday escalated the crisis.

Unlike Mr John Major, the UK prime minister, Mr Bildt sees no advantages for his country in a floating currency. He does not believe in a "national" solution to Sweden's economic troubles.

He also insists the longer-term structural reforms designed to make Sweden more competitive and prosperous are in place and more will come next year.

Business responds cautiously to currency flotation

By Christopher Brown-Humes
in Stockholm

THE decision to let the krona float was received with surprising caution by hard-pressed corporate Sweden, with many executives worried about its long-term impact on inflation.

However, industry leaders acknowledged the move would have a positive short-term effect on their exports and help them regain lost business in key markets.

The fear is that Sweden will repeat the mistakes of previous devaluations

and gain no long-term economic benefit.

"We must avoid the disastrous mistakes of the 1980s," said Mr Magnus Lemmel, managing director of the Federation of Swedish Industries. He called on the government to keep in place measures to strengthen industry's competitiveness.

Other industry leaders echoed his views, and suggested the high price of defending the krona might prove worthwhile if the measures adopted in Sweden's recent crisis packages wrought permanent change away

from the old bias towards social welfare expenditure.

Sweden's forest industry groups, badly affected by the flotation of the Finnish markka in September, will be among the main beneficiaries of yesterday's move.

But Mr Jan Remrod, director general of the Swedish paper and pulp association, said: "The important thing is that this does not lead to inflation or wage increases, and that it does not undo what we have already achieved in the way of improved efficiency."

Mr Sven Gyll, Volvo chief executive, said floating the krona would benefit the group, as 90 per cent of its sales were outside Sweden. He estimated that the move would result in an effective devaluation of 10 per cent.

• Norway's Finance Ministry and central bank responded to the Swedish crisis by standing firm on maintaining the exchange rate policy, adopted in October 1990, which pegs the Norwegian krone to the Ecu. Karen Fossli writes from Oslo.

The domestic one-month money-

market rate shot up to 45 per cent after Sweden's decision to float the krona, from 13.80 per cent earlier in the day.

The Bank of Norway announced it was limiting overnight lending to banks from today. It said it would introduce a system under which individual banks' daily withdrawals would be limited to 50 per cent of the amount available for overnight lending.

For withdrawals exceeding this amount, an extra interest rate of 40 per cent will be imposed.

Doubts over EC steel aid plan

By Andrew Hill in Brussels and Andrew Baxter in London

EUROPEAN steelmakers yesterday gave a cautious welcome to Commission plans to support restructuring of the industry.

However, Commission and national officials voiced doubts about the sums of EC money available to help steel producers, which are suffering from the economic downturn, competition from cheap non-EU imports and overcapacity.

Mr Martin Bangemann, EC industry commissioner, said on Wednesday that up to Ecus200m (7.35bn) could be available to the industry over three years, half from Community funds and half from member states.

But Commission officials pointed out yesterday that only Ecus200m of the Brussels plan was new money, and it was unclear whether EC members would agree to match that funding.

"If the finance ministers are not ready to do anything our contribution will obviously go down too," said one Commission official.

Eurofer, the European steel industry federation, called on the governments of member states "to respect their responsibilities...by making available at least the same amount" as the Commission. Under coal

and steel treaty rules, funding by the Commission for national industries depends on equal or greater funding from the member state concerned.

EC industry ministers will discuss the plan on Tuesday, but they will not be required to take a formal decision.

Other elements of the plan include strengthening protection against cheap non-EU imports and examining where capacity cuts have to be made.

British Steel said the Brussels plan was a step in the right direction.

It would be discussing with the UK government and the Commission how to ensure that the plan achieved the necessary restructuring and was adequate to deal with East European imports.

A major continental steel company said it was clear that the Commission was now "more conscious" of the steel industry's problems, and recognised that the influence of east European imports could damage the market.

But steel producers are still anxiously awaiting the result of Tuesday's EC industry ministers' meeting, which will discuss a controversial plan by the state-controlled Spanish steel industry to rebuild its coal mill at Sestao in northern Spain.

Steel dumping row, Page 16.

Russian businesses move into the private sector

ABOUT 10 per cent of small business in Russia is now in private hands, according to experts from the International Finance Corporation, which is assisting the state privatisation committee, writes John Lloyd in Moscow.

Of the 14,222 shops and businesses now owned by the new merchant class, 8,422 were sold at auction. Many of the rest have been given away to the workers and managers. The government believes these have changed neither their habits nor the service quality inherited from the Soviet period.

French industry still sluggish

French industry remained sluggish in September, expanding just 0.2 per cent after a static July and August, according to Insee, the state statistics institute, writes Alan Rawsthorn in Paris.

A recent Bank of France analysis suggested industrial output fell in October, reflecting the global economic environment.

Greece welcomed into revived WEU

By Lionel Barber in Brussels and Kerin Hope in Athens

THE Western European Union will today expand its role as the fledgling defence arm of the European Community by welcoming Greece as a full member.

At a meeting in Rome, the WEU's first top-level talks on Mr Kohl's planned solidarity pact, leaked out yesterday, prompting bitter recriminations within the government. Mr Theo Waigel, the finance minister, who attended, accused his colleague Mr Jürgen Möller, the economics minister, of "wild garrulosity" for allegedly letting out the secret.

From the union side, Mr Steinlechner refused to give any

details, but expressed disappointment that the government had failed to present any clear ideas of its own on the content of the planned pact.

The union leaders are under some pressure for participating at all, with a sharp attack yesterday from Mr Detlef Hense, leader of the hard-left IG Metall, representing printing workers, for taking part in "secret diplomacy".

The trade union platform goes far beyond what the German government has been ready to do so far to support lame-duck industries in the east, and would require the

maintenance of massive subsidies, running at a net flow of DM150bn (Ecus20m) a year from west to east.

The question now is how far Mr Kohl is prepared to compromise his market-oriented approach in order to win union support for the solidarity pact.

But the very fact that both sides apparently agreed to keep their secret, suggests both are interested in the secret.

Mr Kohl will meet Mr Björn Engholm, leader of the opposition Social Democrats (SPD) on Monday to discuss the state of the German economy and the basic

principles of joining, that the assistance clause cannot be invoked in a dispute between Nato members.

Greece has also accepted Turkey's admission to the WEU as an associate member, with the right to participate in its activities.

Turning to Yugoslavia, Mr Engholm said the WEU would strengthen the naval blockade in the Adriatic through stop-and-search operations on vessels suspected of carrying banned cargo to Serbia and Montenegro, in accordance with a UN security council resolution adopted this week.

However, Greece had to make concessions during almost a year of negotiations, to ensure it would not exploit WEU membership as a guarantee against a perceived threat to its security by Turkey, a Nato ally.

France, Germany and some other members see WEU as leading gradually to a common European defence policy under the political direction of EC governments as sketched out in the

constitution of joining

Germany slows fall in Europe's new car sales

By Kevin Done, Motor Industry Correspondent

NEW car sales in west Europe were boosted last month by an increase of around 5 per cent in registrations in Germany, the biggest single market in Europe.

The rise in Germany helped to compensate for falls in many of the small and medium European markets and left sales in October virtually unchanged from the same month a year ago at 1.068m, an increase of 0.1 per cent.

According to industry estimates new car sales in west Europe in the first 10 months of the year totalled 11.58m, a decline of 1.4 per cent from the corresponding period a year ago.

Sales have also been weakening in Spain, where new car demand in October fell by 3.1 per cent.

In the first 10 months new car sales in Spain were still 10.9 per cent higher than a year ago.

Sales in France in October were unchanged.

The most recent industry forecasts suggest that new car sales in Germany could fall by around 11 per cent in 1993.

In the first 10 months of this year German new car sales are

estimated to have fallen by 8 per cent to 3.36m from the record level reached in 1991 in the wake of reunification.

Current forecasts suggest that west European new car sales could fall by around 3.5 per cent next year, chiefly under the impact of the increase in Germany and in Italy. The weakening trend is already clear in Italy where sales in October fell by 2.9 per cent year-on-year, the third consecutive monthly fall. In the first 10 months of the year new car sales in Italy were still 3.3 per cent higher than a year ago.

Sales have also been weakening in Spain, where new car demand in October fell by 3.1 per cent.

In the first 10 months new car sales in Spain were still 10.9 per cent higher than a year ago.

Sales in France in October were unchanged.

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In the first 10 months of this year German new car sales are

Ireland turns to thoughts of Spring

Tim Coone reports on why the Labour party leader is riding high in the opinion polls

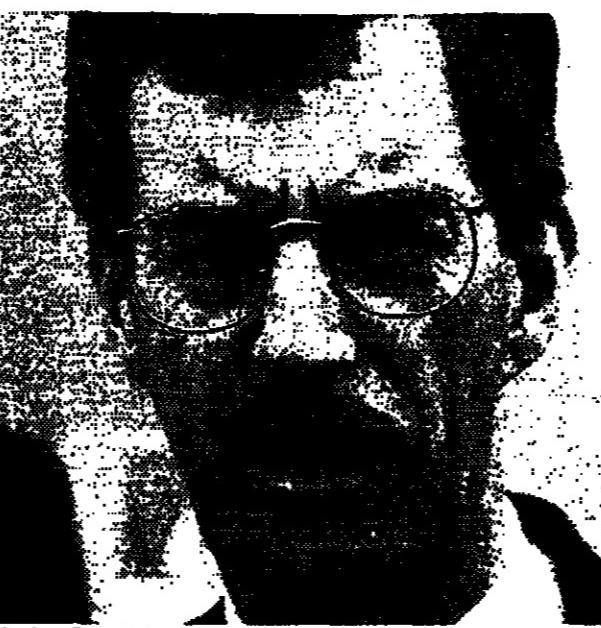
ALANKEY, bespectacled figure, with a neatly clipped moustache, a firm handshake, and an air of gravitas, swept through north Dublin's street markets and shopping malls this week... with a promise of change.

Mr Dick Spring, the leader of the Irish Labour party, has serious ambitions of becoming the country's next prime minister. Riding high in the opinion polls, he has signalled to other party leaders that any discussions on coalition government after next week's general election will have to include the possibility of shared leadership if Labour is to join in.

On current poll projections, it is likely that neither Prime Minister Albert Reynolds' Fianna Fail nor Fine Gael, the two main parties, will win enough seats to form a government in the 166-seat Dail (parliament) on its own, nor with any of the smaller parties that have indicated a willingness to join a coalition.

Barring a last-minute blunder, it is probable that Labour will hold the balance of power with 20-25 seats, against 70-75 for Fianna Fail and maybe 50-55 for Fine Gael.

Polling only 6.4 per cent and 9.5 per cent in the 1987 and 1989 parliamentary elections



Spring: Don Quixote tilting at windmills of graft in high places

respectively, Labour had its big breakthrough in the 1990 presidential election, when Mrs Mary Robinson, the Labour-backed candidate, won with 53 per cent of the vote.

Although her victory is accepted as a one-off result, the positive image she has projected as president and her well-known liberal stances on women's and civil rights are

generally acknowledged as factors behind Labour's current good standing at 19 per cent in the polls.

Mr Spring's own high profile, as a latter-day Don Quixote tilting at the windmills of corruption in high places, and the champion of the unemployed, has given him a personal popularity rating of almost 70 per cent, more than

30 points ahead any other party leader, and at least 42 points ahead of Mr Reynolds.

Mr Spring says: "I now have the confidence to say that Labour will make the most important breakthrough it has ever made, which will break the mould of traditional concepts of Irish politics which are still rooted in the civil war [of the 1920s]."

One of the key battlegrounds will be Dublin, where Labour has almost caught up with Fianna Fail in the opinion polls, and where it hopes to pick up seven new seats.

The Dublin Central constituency, a poor working-class district, is a key marginal where Mr Bertie Ahern, the finance minister, is defending his Dail seat. It is a Fianna Fail heartland, but boundary changes since the last election have given Labour a strong chance of winning one or two seats held by Fianna Fail.

Mr Spring's name is not exactly a household one. "Who's that?" asked a group of grim-faced children who beg for money from the photographers who swarm around Mr Spring. He is also less than universally popular. "He only comes down here when he wants our votes!" a man shouts out. However, his reception is usually overwhelmingly

welcoming. People approach him to wish him well.

"I'll take two-to-one-on for 30 seats," grins an elderly man coming out of a betting shop.

Another elderly man who complains of the health service says: "I usually vote Fine Gael but I think I'll give you a man a try this time."

A pensioner and life-long Fianna Fail supporter says she will be voting Labour: "It's the unemployment, the jobs. This lot haven't done anything, so it's time to give the others a chance. They can't do any worse."

Mr Spring presses on with his message that his party will bring probity to government, tackle unemployment and improve housing, health and the schools.

At a primary school housed in 20-year-old prefabricated buildings on the grounds of the Education Ministry, he surveys the peeling paintwork, missing gutterwork and rotting windowsframes.

He promises the teachers and parents who have gathered to meet him that a government in which he participated would rebuild the school. Presenting him proudly to her class, a teacher asks: "Does anyone know who this man is?" After a moment's silence, one small child ventures "John Major?"

Romanian government approved

By Virginia Marsh in Bucharest

THE Romanian parliament yesterday accepted a new cabinet led by Prime Minister Nicolae Vacarolu and committed to gentler reforms.

The cabinet is dominated by the Democratic National Salvation Front (DNSP) which won 28 per cent of the vote in September's elections. It includes several junior ministers who served in the communist era and favours a slower reform.

However, the cabinet is weighted towards the party's younger wing and brings many newcomers to the government. It also includes some reform-minded independents, such as Mr Mihai Negritoiu, who will be deputy prime minister in charge of economic reforms.

Romanian nationalist parties which captured 12 per cent of the vote did not, as feared by many, win cabinet posts.

The democratic convention, a coalition of anti-communist parties which came second in the polls, voted against the government because it said it failed to present concrete economic policies.

Mr Vacarolu said he would not present a long-term strategy for four months.

WEST EUROPEAN NEW CAR REGISTRATIONS January-October 1992

	Volume (Units)	Volume Change (%)	Share (%) Jan-Oct '92	Share (%) Jan-Oct '91
TOTAL MARKET	11,363,000	-1.4	100.0	100.0
MANUFACTURERS:				
Volkswagen (Incl. SEAT & Skoda)	2,014,000	+5.9	17.4	16.2
Audi, SEAT & Skoda	1,433,000	+0.3	12.4	12.2
General Motors (Opel/Vauxhall, USA & Saab)	1,371,000	+0.8	11.9	11.6
- Opel/Vauxhall	44,000	-1.1	0.4	0.4
- Saab	1,325,000	+0.9	12.1	11.8
Fiat (Incl. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati)	1,386,000	-7.6	12.0	12.8
Ford (Europe)	1,334,000	-5.4	11.5	12.0
- Ford Europe	1,322,000	-5.3	11.4	11.9
- Ford Europe	10,000	-13.9	0.1	0.1
Porsche	1,201,000	+1.1	10.5	10.0
BMW	985,000	+8.3	8.5	8.0
Nissan	371,000	-6.1	3.2	3.4
Mercedes-Benz	352,000	-11.8	3.0	3.4
Toyota	285,000	-11.2	2.5	2.7
Rover	271,000	-11.4	2.3	2.5
Mazda	238,000	-9.8	2.0	2.2
Volvoff	172,000	+1.0	1.5	1.5
Honda	151,000	+2.0	1.3	1.3
Mitsubishi	132,000	-19.4	1.2	1.5
Total Japanese	1,371,000	-7.9	11.9	12.4
MARKETS:				
Germany	3,980,000	-8.0	29.1	31.1
Italy	2,068,000	+3.2	17.8	17.7
France	1,701,000	+0.4	14.7	14.7
United Kingdom	1,407,000	-1.9	12.2	12.2
Spain	823,000	+10.9	7.2	6.4

Source: industry estimates
**VW holds 50 per cent of SEAT and 49 per cent of Skoda.
*GM holds 20 per cent and management control of Saab Automobile.
Mitsubishi holds a 20 per cent stake in Rover vehicle operations.
**Renault and Volvo are listed through majority ownership holdings.

Source: industry estimates

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NEWS: WORLD TRADE

Yeutter holds his breath on oilseed talks

By Nancy Dunne
In Washington

AMONG those anxiously awaiting the outcome of yesterday's US-EC agriculture trade talks in Washington was Mr Clayton Yeutter, the former US Trade Representative and one of the midwives at the birth of the international trade talks in Uruguay in 1986.

It was also Mr Yeutter who brought the case against EC oilseeds subsidies to Geneva in 1987, against the urging of Mr Ray MacSharry, the EC agriculture commissioner, who told him the Community would soon alter its subsidy programme.

"It had MacSharry that with the magnitude of the subsidies being offered, if I were a European farmer, I'd grow oilseeds on the top of the Alps mountains," Mr Yeutter now says.

Mr Yeutter went on from the trade post to become Secretary of Agriculture, chairman of the Republican party, and a White House adviser. Since President Bush lost the presidential election on November 3 he is "at leisure".

"MacSharry wanted to change the programme. He just didn't get it done," he said. "This is no minor dispute that can be held on the backburner for years on end."

After winning two dispute settlement rulings and failing to negotiate compensation, the US and the EC are now on the brink of a trade war, with the US threatening to impose punitive tariffs on \$40m worth of EC products on December 5.

The long stalled farm trade talks in the Uruguay Round are entangled in the dispute.

If a breakthrough is not achieved soon, time will run out on the Uruguay Round. The US president loses his "fast-track" authority to negotiate after March 1.

Mr Yeutter believes the Democratic Congress probably would give President Clinton an extension of the negotiating authority but there are risks in waiting. Congress is likely to



Yeutter: "No minor dispute"

attach protectionist constraints to the legislation.

In his first appearance on the stage of international trade, President Clinton would be under great pressure, he said, not to "give away the store".

Because he is likely to "take on" his labour supporters to get approval of the North American Free Trade Agreement, "he will have to give them something in the Uruguay Round context" and that is likely to be labour rights, which other countries regard as an infringement of sovereignty.

There would be months of delays while a new US negotiating team is prepared to continue Uruguay Round negotiations.

"In light of the economic situation in Europe, if there was ever a time it needs a shot in the arm, it is now," Mr Yeutter said. "Conclusion of the Uruguay Round would provide a boost in confidence and help overcome some of the economic malaise."

• The US, lifting a 13-year ban on ministerial visits to Taiwan, will send US Trade Representative Carla Hills to Taipei for economic talks next month, officials said yesterday.

Mrs Hills will discuss the possibility of Taiwan joining the North American Free Trade Agreement, and its application to join the General Agreement on Tariffs and Trade.

Unctad to boost aid for debt managing

By Frances Williams
in Geneva

THE UN Conference on Trade and Development (Unctad) is to boost its programme for helping developing countries manage their debt, with potential foreign exchange savings running to millions of dollars.

Unctad's computerised debt information system, used by about 20 countries, enables governments to monitor their obligations (which many countries cannot easily do) and use the information in economic decision-making. It is a way to avoid unnecessary costs such as overpayments to creditors or penalty interest rates due to poor book-keeping.

Unctad officials say developing countries must process huge amounts of information on debt, a task only handled effectively by computer. Many debtor countries carry 1,000 loans on their books.

Lack of information has meant many countries must rely on data provided by their creditors, with no independent means of checking accuracy. Use of Unctad's debt management system enabled one central American country to reclaim \$1.2m in overpayments. An Asian debtor recouped \$800,000 paid in excess interest.

Expansion of the programme, in collaboration with the World Bank, is being financed this week in the Ukrainian capital of Kiev. Ukrainian officials hope that, supplied with over \$1m worth of IBM computers and software, the centre will help Ukraine's collapsing industries leap to modern technology.

The Computer Integrated Manufacturing Centre (CIM), based at Ukraine's leading scientific post-secondary school, the Kiev Polytechnic Institute, will teach students and train professional engineers in computer industries, design and manufacturing.

Ukraine is a world leader in cybernetics research and has a huge, and increasingly under-employed, scientific and engineering community. IBM,

Brazilian state adapts to centre stage

Christina Lamb looks at Rio Grande do Sul's hopes and fears from Mercosur pact

ONE of the first callers to the Dial Mercosur service set up last year by the state government of Rio Grande do Sul was a lady asking where she could find her local Mercosul, mistakenly believing it to be a new chain of supermarkets.

Today most of the state's 9.2m inhabitants are better informed, but hold mixed opinions about the nascent free trade arrangement between Brazil, Argentina, Uruguay and Paraguay which will affect them more than any other community in the southern cone.

Not only is Brazil's southernmost state right in the centre of Mercosur, but its largely agricultural production comprises the same crops as neighbouring Uruguay and Argentina and is less competitive due to poorer soil conditions and heavier local taxes.

Agriculture makes up 53 per cent of the state's \$35.7bn GDP and much of the 15m tonnes of foodstuff produced yearly sells within Brazil.

Although currently benefiting from Argentina's overvalued currency which makes Brazilian products cheap in comparison, Rio Grande's

wheat, rice, poultry, dairy, beef and wine producers all expect to suffer once Mercosur comes fully into operation in 1995 with zero tariffs between the two neighbours.

Mr Hugo Paz, the president of the state's Farmers Association, complains: "Mercosur is moving so fast that it's heading for self-destruction. It is destroying Brazil's agro-economy, particularly that of Rio Grande."

He describes Brazil's integration with its neighbours formalised by the Treaty of Asuncion of March 1991, as "like marrying a girl you have just met in the street."

He maintains: "No compensating mechanisms have been created for the dead and injured and the lack of macroeconomic stability or policy coordination means it's impossible to decide whether to abandon products. Unless something drastic is done what we'll have is not integration but war over food monies."

Yet in many ways for Rio Grande, Mercosur makes far more sense than for Brazil's north-eastern states. It shares a 1,000km border with Uruguay and a 700km border with Argentina and its culture is

closer to these southern neighbours than to that of Brazil.

Trade with Mercosur partners, though still relatively unimportant for the state, is rising. Last year its exports to Mercosur increased to \$221.9m from \$137.8m in 1990, though still less than 7 per cent of the total \$3.5bn. This year it

should top \$300m. Another benefit is an increased tourism. A record 500,000 tourists visited the state last year, mostly from Mercosur countries.

In the last two decades, rapid industrialisation has transformed Rio Grande which now has a gross domestic product

greater than that of Hungary, and Mercosur should benefit sectors such as car parts, bus manufacturers and petrochemicals. Some local companies are already taking advantage. Brahma, Brazil's leading beer company, recently invested \$40m in joint ventures in Argentina and Uruguay.

Fonit Zul is selling mineral water to Argentina. Agrale is exporting trucks across the border, and Balancas Uruguayan is selling electric scales to Paraguay.

The state authorities hope to use its strategic position, cheap power, deepwater port, and high quality of life to attract in foreign companies aiming at the 20m strong Mercosur. A department for international affairs has been created with an impressive database listing companies seeking partners. State missions have visited the US, Hong Kong and Japan and Europe is next on the list.

The Federation of Industries of Rio Grande has set up a Mercosur division and in a specially commissioned study on 20 sectors found 16 saw it as an opportunity and only four as a threat - wheat, wine, dairy products and canned fruits.

Mr Luiz Mandelli, president of the federation, says "we're entirely in favour of Mercosur. For decades we've complained that we're in bad competitive shape because we were so far from the main consumer markets of São Paulo and Rio. Now we're right in the middle. If you draw a 800 mile circle round Porto Alegre you have two thirds of the GDP of South America."

But Mr Alceu Collares, the state Governor, warns against complacency: "Our proximity to all four Mercosur countries means we could be the biggest beneficiary. However, we could just become a corridor between the big producers of Buenos Aires and São Paulo unless we are competitive in price and quality."

The government has set up a \$390m industrial development programme and recruited Japanese and German advisers. Recently for example, Aurora, Brazil's largest wine co-operative, invested \$16m in conversion to produce fruit juice and jams to protect itself against a possible influx of Argentine wine. "It's adapt or die," says Mr Adao Eliseu de Carvalho, secretary for international affairs.

Computer engineering centre opens in Kiev

By Chrystia Freeland in Kiev

THE first computer engineering centre was opened this week in the Ukrainian capital of Kiev. Ukrainian officials hope that, supplied with over \$1m worth of IBM computers and software, the centre will help Ukraine's collapsing industries leap to modern technology.

The Computer Integrated Manufacturing Centre (CIM), based at Ukraine's leading scientific post-secondary school, the Kiev Polytechnic Institute, will teach students and train professional engineers in computer industries, design and manufacturing.

Ukraine is a world leader in cybernetics research and has a huge, and increasingly under-employed, scientific and engineering community. IBM,

which has supplied 14,000 personal computers to schools in the former Soviet Union, plans to open CIM centres in other parts of the former Soviet Union.

"There is a vast intellectual potential here," said Mr Horst Bernstein, IBM president for trade development. "What we are doing is testing the possibility."

The CIM centre was primarily an educational venture, he warned. In the long run, IBM, which opened an office in Kiev this week, was likely to "have procurement from Ukraine, but it is a slow build-up".

IBM is already commissioning small software projects in Ukraine. IBM is also seeking an entrée into strategic sectors in Ukraine which must rapidly set up computer systems, such as banking.

Laing shares Turkmenistan contracts

Polish enterprise zone plans could founder

By Christopher Bobinski
in Warsaw

PLANS to set up Poland's first industrial enterprise zone at Mielec, site of a recession-hit aircraft factory, could founder because of resistance from treasury officials over granting necessary incentives.

Samuel Montagu Financial Services say the initial cost of

allowing tax concessions, and paying unemployment benefit, will reach Zlote 135m (\$3.8m) next year, with a small profit by 1995.

The plans have been authorised by the industry ministry whose head, Mr Wacław Niewiarowski, is to meet workers today.

They are demanding credible restructuring proposals for the plant, which has suffered from

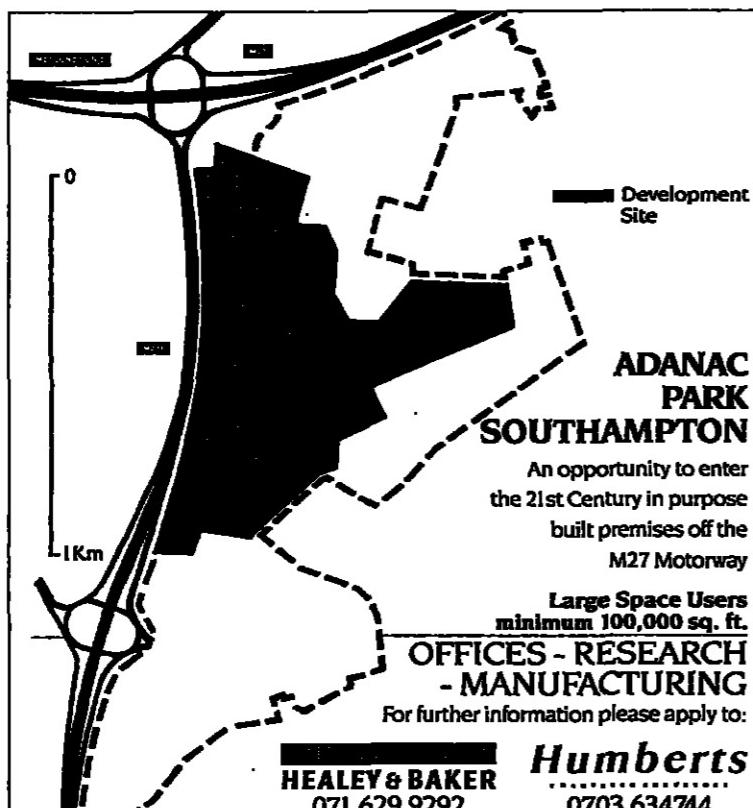
the collapse of the former Soviet market. The enterprise zone proposal is based on the favourable site of the plant which is 250km south-east of Warsaw, near the former Soviet Union. It has a major airport and a highly qualified workforce.

Mr Niewiarowski has high hopes that the scheme will resolve the factory's problems. The aircraft works, which once employed 22,000 people, now has 9,600 on its payroll. A further 4,500 are to be dismissed within months.

The strike started last week when workers were paid 40 per cent of their monthly wage. Mr Niewiarowski will have to wrest tax concessions and investment grants from the finance ministry if his project is to start.

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Clinton looks to Congress on policy

By George Graham

in Washington

GOVERNOR Bill Clinton yesterday set out to "establish a good working relationship" with Congress in a series of meetings on Capitol Hill with leaders from both parties, focusing on health care and the best way of combining an economic stimulus with a reduction of the budget deficit.

The US president-elect began with his own Democratic party leaders, in his second meeting with the majority leaders since the election.

He then saw Sen Robert Dole, Republican leader in the Senate, and meetings were also scheduled with powerful individual congressmen such as Mr Dan Rostenkowski, who has dominated US tax policy for the last 12 years as chairman of the ways and means committee.

Congress has in recent years developed a reputation as an institution hamstrung by autocratic committee chairmen, incapable of passing needed legislation and corrupted by the perquisites of power.

Mr Clinton's election may open the way to more effective action, but a new study published yesterday by two of Washington's most influential think tanks, the American Enterprise Institute and the Brookings Institution, suggests more reforms are needed to the way Congress does business.

"We think effective policymaking requires a strong president and a strong Congress," said Mr Thomas Mann of Brookings. He said the problems of Congress reflected the weakness of party leadership and their lack of control over the setting of a policy agenda as well as debating structures that "put a premium on closed doors".

Mr Mann and Mr Norman Ornstein of AEI urged the party caucus meetings of the House of Representatives in December to give a mandate to each party's leaders, and especially to the Speaker, to set a policy agenda.



Puerto Rican flag (left) flies alongside the Stars and Stripes on the Caribbean island looking to its future

Fernando Martin of the Puerto Rican Independence Party being supported by just 4 per cent.

There is little support for political independence, as indicated by the Independence Party's showing, and the impending plebiscite is expected to determine whether Puerto Ricans want to continue and enhance their current status,

or become a state of the union. Dr Rossello's NPP has consistently advocated statehood, but Puerto Rican analysts have cautioned that votes cast in the referendum will cut across party political lines.

Dr Rossello's decision that the issue of the island's status must be decided soon is an apparent attempt to determine definitively a matter which has

been the object of sometimes trenchant debate.

Although the governor-elect will present the result of the referendum to Washington as a fait accompli, any decision by the US Congress will be affected by considerations such as Puerto Rico's geopolitical and strategic value to Washington. The island, at the north-eastern end of the Caribbean archipelago, is host to a large US naval base.

Puerto Ricans' decision about their political future will turn on economics. The current "commonwealth" status has allowed the island's economy an advantage under Section 936 of the US revenue code which encourages mainland companies with subsidiaries in Puerto Rico to deposit their profits in local banks. Totaling about \$15bn (£9.8bn), these have assisted economic growth and stability.

The economy also benefits from federal welfare funds of about \$4bn a year and receives hundreds of millions of dollars from rebates of federal excise taxes and duties collected on exports such as rum.

Support for the political options for the island will be determined largely by whether Puerto Ricans feel that this level of financial support will be available to them if they vote for statehood, and whether the economy can do without it.

Housing starts in US show decline

A RUN OF encouraging US economic news was broken yesterday by reports of an unexpected decline in housing starts in October and a sharp rise in weekly claims for unemployment insurance early this month, writes Michael Prowse from Washington.

The Commerce Department said housing starts fell 1.1 per cent between September and October to a seasonally adjusted annual rate of 1.23m units. The decline was broadly based with fewer starts in all regions except the Midwest. The figures, however, tend to be volatile on a monthly basis.

The number of people making new claims for state unemployment insurance rose 31,000 to 386,000 in the week ending November 7, the largest increase in three months. The jump came as a surprise after weeks of steady declines.

Peru arrests

Police in Peru yesterday arrested eight Maoist guerrillas who they said were planning further bombings in the Peruvian capital ahead of elections on Sunday. Sally Bowen and agencies report from Lima.

Pre-electoral tension has been heightened by a spate of bombings in Lima this week, but the "armed strike" called for the past two days has caused little actual disruption.

Canada drug haul

Canadian police and troops have seized 3,000 kilograms of cocaine, worth an estimated C\$1bn (£524m), Canada's biggest drug haul. Robert Gibbons reports from Montreal.

Four men arrested in the swoop, at a remote airstrip 200 miles north of Montreal, were to appear in court yesterday.

Pindling quits

Sir Lynden Pindling, prime minister of the Bahamas for 25 years until an electoral defeat in August, has resigned as leader of the opposition Progressive Liberal Party, writes Canute James.

Franco denies dithering

By Christina Lamb

in Rio de Janeiro

BRAZIL'S new President Itamar Franco has strongly defended himself against mounting criticism he is spending his time on trivia rather than the central economic problems confronting the country.

In his first lengthy press conference since taking office two months ago, Mr Franco said: "Society wants the president sometimes to put aside macrothinking and descend to the microlevel of rents, medi-

cines, schools and trying to improve everyday life."

His focus on such issues has led his administration to be labelled "the Cheese Muffin Republic", a reference to the muffins that are a staple diet of many Brazilians poor.

The president was to outline his plans for government in his first national address on Wednesday but cancelled it to visit his sick mother.

Instead he made clear some of his views, declaring war on financial speculators who have been leaving the stockmarket and buying gold and dollars.

Argentine judge guilty

By John Barham

in Buenos Aires

FOR the first time in living memory, a senior public figure has been found guilty of corruption in Argentina, after the Senate yesterday impeached Mr Alberto Nicosia, a federal judge accused of multi-million dollar fraud against state-owned companies.

The senators found the judge guilty of misconduct and failing to carry out the duties of a public official.

They removed him from the bench and banned him from holding public office.

Mr Nicosia was a key figure in an organisation involving other judges, expert witnesses and defence and prosecution lawyers, who colluded with plaintiffs suing state companies for personal loss in accidents. The judges invariably found against the defendants and inflated their damages, which they then shared out amongst themselves.

Ferrocarriles Argentinos, the state-owned railway company, was their favoured target. In December 1990, a government watchdog agency reported that the company owed legal costs and damages of about \$80m. The government has also initiated further, as yet unknown, charges against Mr Nicosia.

Corruption is one of the principal complaints of ordinary Argentines against the government of President Carlos Menem. The government claims it is rooting out corruption by deregulating and privatising the economy. Furthermore, about 20 senior government officials, including five cabinet ministers, have been sacked in corruption-related scandals.



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NEWS: INTERNATIONAL

Yeltsin halts North Korean military aid

By John Burton in Seoul and Agencies

M R Boris Yeltsin, the Russian president, seeking to cement ties with South Korea, said yesterday his country was suspending military aid to North Korea.

In a speech to the South Korean parliament, he also said that Russia could stop building submarines, a key component of its naval arsenal, within the next three years.

He said Moscow would sharply cut its armed forces in the Far East to help contribute to better relations. "I think that in two or three years' time we will stop making submarines for military purposes," he said, departing from the text of his prepared speech to parliament. He also hinted broadly Russia would consider selling weapons to South Korea.

Mr Yeltsin, on his first official trip to an Asian country, is pressing hard to transform ties with a strategically vital region and potential source of hard currency.

He tried to bury the contentious past, returning to Seoul the flight recorders from a South Korean airliner shot down by a Soviet warplane in 1983 with the loss of 265 lives.

Seoul is seeking Russian

help in persuading North Korea to accept nuclear inspections and renew progress toward unification. But Russia's reduced military ties and falling trade with North Korea are likely to weaken its leverage with Pyongyang. Russia has already ended the supply of nuclear materials and technology to North Korea. Mr Yeltsin told Mr Roh Tae-woo, the South Korean president.

Moscow is now curtailing arms shipments to Pyongyang, including the supply of MiG-29 combat aircraft being assembled in the North.

Mr Roh asked Mr Yeltsin, who will visit Beijing next month, to urge China to take a more active role in resolving the Korean question. • North Korea's trade patterns last year were governed by a search for new oil supplies to compensate for falling petroleum shipments from the former Soviet Union. Kora, the Seoul-based Korea trade promotion agency, said yesterday.

Soviet oil supplies and its shipment of machinery and industrial facilities to North Korea fell last year after Moscow demanded cash payments for these goods, which were formerly settled through open account arrangements.

Savimbi to accept poll results

UNITA rebel leader Jonas Savimbi, whose refusal to accept the outcome of last September's elections has threatened Angola with renewed civil war, has agreed to accept the first-round results, a UN official said yesterday. Reuters reports from Luanda.

In the first hopeful sign in weeks of a peaceful settlement, Mr Savimbi sent a letter to UN special representative Margaret Anster saying he still thought the results were rigged but would accept them.

The official said Mr Savimbi was also open to accepting an enhanced UN role in Angola, where the world organisation has been monitoring May 1991 peace accords.

But he declined to say whether the Unita leader had pledged to honour the agreements or a truce.

Bhutto in bid to reach Peshawar

The Pakistani opposition leader Benazir Bhutto will try to reach the northern city of Peshawar today to lead an anti-government protest march, in an attempt to step up pressure on Prime Minister Nawaz Sharif, writes Farhan Bokhari in Islamabad.

Ms Bhutto has been banned from the capital, Islamabad, for 30 days under a government edict which came into effect yesterday after she tried to lead an opposition march to the capital in an attempt to unseat the government.

"I salute the heroic people of Pakistan for their courage in making the long march very successful. Our movement will continue because people of the country want change," she said in Karachi at a news conference last night.

Ms Bhutto is likely to be stopped from going to Peshawar, a senior official said last night.

Tajikistan KGB chief killed

Unidentified gunmen have slain the pro-Islamic deputy KGB chief in former Soviet Tajikistan, whose deposed Communist leaders have been fighting their way back to power, writes Steve LeVine in Tashkent.

Mr Jurabek Aminov, among the warring Central Asian nation's most articulate and effective leaders, was killed in a spray of bullets on Wednesday night as he drove to the airport in the Tajik capital of Dushanbe. There was no indication who was responsible.

The murder removed probably the most skilled military organiser for the anti-Communist coalition of Islamists and secular moderates, a politically diverse alignment that was already fractured.

The murder occurred as Tajikistan, the former Soviet Union's most unstable republic, seemed headed for more war. Rebels loyal to former Communist President Rahmon Nabiyev have surrounded and besieged Dushanbe, which is controlled by the anti-Communist coalition.

Patten's proposals face testing time

Alexander Nicoll and Simon Holberton look at HK's democratic aspirations

SIX weeks after Mr Chris Patten, Hong Kong's governor, unveiled his plans for broader democracy, the gulf between London and Beijing which they have opened shows little sign of being narrowed.

A round of diplomatic activity in London this week saw Britain, China and Mr Patten himself spelling out their positions – and the governor winning strong backing from Mr John Major, the prime minister. But no further discussions with the Chinese are planned beyond regularly scheduled contacts between London, Beijing and Hong Kong.

China is not alone in being rattled by Mr Patten's decision – backed by his former cabinet colleagues in London – to stop treating Beijing with kid gloves and attempt to deal with it in much the same way as with any other country.

Some British officials who were involved in previous negotiations with Beijing are quietly shaking their heads at the abandonment of a non-confrontational approach. They fear that Mr Patten has precipitated a serious crisis.

His supporters dismiss such worries as springing from what they see as the former tendency of the British government, under the influence of Sinologist academics, to view Hong Kong as a relatively small factor in an overall UK/China relationship. This was thought to have led London to give too much away to Beijing on Hong Kong.

Instead, the governor's backers point to the importance of

disgust and its belief that London has gone back on agreements.

He indicated that China could allow the dispute to spread into other bilateral links, and caused alarm in Hong Kong when he said: "People cannot help asking the question whether we still have to stick to the Sino-British Joint Declaration and whether the understanding reached between the Chinese and British sides is to be allowed to be scattered to the winds."

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His supporters dismiss such

Hong Kong to China – it would represent 18 per cent of China's economy and economic ties with the mainland are constantly growing. Though there can be no certainty that Beijing would subordinate its political worries to its economic interests, they at least believe Hong Kong is dealing from a position of greater strength than was previously assumed.

Mr Patten has repeatedly argued that he is seeking to implement the 1984 Joint Declaration on Hong Kong's future; that he had to produce proposals because the Basic Law, Hong Kong's Beijing-drafted post-1997 constitution, was silent on the 1995 elections; that they are modest and do not contravene the Basic Law or Joint Declaration; that a smooth transition to Chinese rule is the aim.

However, though Britain insists that there has not been any policy change on Hong Kong, Mr Patten clearly wants to meet popular aspirations to greater democracy as much as he can, and to a degree previously not thought possible in London.

China's concern is to keep the development of democracy, and particularly the involvement of vocal liberals, to a minimum. Mr Patten has succeeded in bringing the democracy campaigners behind his plans, even though proposed arrangements fall well short

of both of what they wanted and of full democracy.

The danger, however, is that support within Hong Kong – Mr Patten's trump card – and the basis for his policy – will ebb as fears grow about the dangers of confrontation with Beijing. Some businessmen are already showing their concern.

Opinion polls show the electorate supporting his plans, and LegCo last week broadly endorsed them. However, there will not be a final LegCo vote on them until the late spring of 1993. In the meantime, China can be expected to exert pressure on the opposition makers.

The airport talks could be the main channel for negotiations with Beijing in the coming months. But there is a growing feeling in Hong Kong that Beijing will not produce counter-proposals on the electoral arrangements.

Mr Patten has staked his governorship on his constitutional plans and has won the support of Australia, Canada and the US for them. But he may find that the wisdom of his "have-go" approach will increasingly be questioned in Hong Kong if there is no sign of rapprochement with Beijing.

The way remains open for an increasingly mature political community in Hong Kong to produce alternative suggestions if their concerns about Mr Patten's proposals mount. If he were to be forced to compromise, it could be with them – and this would eventually allow him an honourable way to give ground.

officials said there was no question of the government awarding contracts which require China's consent without Beijing's approval.

However, some influential businessmen in Hong Kong doubt the wisdom of moving ahead with the airport platform contract at such a sensitive time. They feel it will only invite negative Chinese reactions – which has been promised – at a time when all efforts should be directed to mending fences with Beijing.

The stock market jitters resulting from Zhu's remarks strengthened the worries of Mr Patten's opponents in business and political circles about the effect of a stalemate in Sino-British relations on investment in Hong Kong.

Yesterday's decision to push ahead with the platform contract for the colony's new airport may bolster confidence. Proceeding with the contract means the project remains on schedule for opening in 1997 even though China has yet to agree to financing plans. The government says it will prevent cost overruns.

British officials told the Chinese that Hong Kong had no intention of pursuing a "go it alone" policy on the airport and that it still seeks a comprehensive settlement to the financing of the HKA\$150m project. Yesterday, Hong Kong

Bond cleared in dishonesty charge retrial

By Kevin Brown in Sydney

MR ALAN BOND, the bankrupt Australian entrepreneur, was yesterday cleared by a Perth jury of dishonesty inducing a businessman to take part in the A\$370m (\$360m) rescue of a collapsed merchant bank run by a fellow entrepreneur.

Mr Bond spent 90 days in Wooroloo prison outside Perth earlier this year after being sentenced to 2½ years' detention on the same charge. He was freed on appeal by the Western Australian (WA) Supreme Court and was being tried again.

Mr Bond, 54, said after leaving court yesterday that he had been tried on a "trumped up" charge. "I've had a pretty difficult time right through Wooroloo and other people ought to bring it to account for it."

The charge against Mr Bond related to the 1987 rescue of Rothwell's merchant bank, run by Mr Laurie Connell, who gave evidence at the second trial, said Mr Connell had told him he would lie to make sure Mr Bond was convicted.

Mr Healy alleged that Mr Connell had told him that his motive was to distract public attention from his own forthcoming trial on charges related to the Rothwells rescue.

Mr Ian Callinan, QC, for Mr Bond, told the jury that the prosecution had failed to prove its case. "It has often been said in this community that people who fly high have to be cut down to size. Alan Bond has been cut down to size. Don't cut him down again."

Mr Bond, who was recently divorced, was declared bankrupt in April with debts and contingent liabilities of more than A\$700m, compared with assets of A\$16m. He is also being investigated by Australian Securities Commission, the corporate watchdog.

However, he has shown some signs of seeking to continue in public life: letters written to supporters from his prison cell contained a number of suggestions for solving Australia's economic problems.

Mr Bond resigned as chairman of Bond Corp in 1990, two days before the group announced a record loss of A\$2.2bn. Bond Corp is being restructured under a scheme which will reduce Mr Bond's holding from more than 50 per cent to 5 per cent. Most of its assets have been sold.

cue, in which the Western Australian state government also participated.

His evidence was contradicted by Mr Connell, who said the fee was arranged earlier. However, Mr Max Healy, a Perth builder who gave evidence at the second trial, said Mr Connell had told him he would lie to make sure Mr Bond was convicted.

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The institute said the falls were the worst results since it started the survey in 1986.

The confirmed fall in land prices will eat into more of the collateral used for many of the real estate loans which the banks made during the boom in land speculation in the late 1980s. The collapse in real estate prices is the main reason for the sharp rise in the bank's non-performing loans over the past year.

In the six months to September non-performing loans held by the top 21 Japanese banks rose by more than 50 per cent to Y12,000bn (\$13bn). This increase largely reflects last year's fall in the property market, when average residential land prices for the six largest cities fell by 3.7 per cent. The acceleration in the rate of decline in land prices means the banks' bad debts will continue to rise for the foreseeable future.

Senior bankers admit the amount of non-performing loans is still rising rapidly.

The findings of the report, based on a survey of 32,000 sites in 223 cities, suggests the government's public works programme, which includes measures to bring forward purchases of land for public infrastructure schemes, has had little impact on prices.

Average land prices throughout Japan fell by 2.6 per cent in the six months to the end of September, with residential prices down 2.5 per cent and commercial prices down 3.3 per cent.

Japanese guru starts pressure group

By Charles Leadbeater in Tokyo

MR Kenichi Ohmae, Japan's most famous management guru, plans an attempt to break the mould of Japanese politics by launching a pressure group to champion the cause of radical political reform.

Mr Ohmae, chairman of the Japanese operations of McKinsey and Co, management consultants, is household name in Japanese business after publishing more than 30 books on management.

He describes his group, dubbed The Reform of Japan, as a grass-roots organisation which will offer a third choice between the ruling Liberal Democratic party and the Socialist parties.

The grouping will promote the reform of Japan's political institutions by offering to support politicians who endorse its goals. A reform of the electoral system widely blamed for encouraging politicians to seek illegal corporate donations is likely to be a central issue for the group.

Mr Ohmae was named the nation's most influential leader of public opinion by a recent survey of more than 700 prominent Japanese.

Mr Ohmae's group is unlikely to stage a significant challenge but it could provide a focal point for the public outcry of the Tokyo Sagawa Kyubin scandal which has exposed links between LDP leaders, allegedly corrupt businessmen and organised crime syndicates. The initiative is likely to put pressure on the LDP to offer more far-reaching proposals for political reform.

The scandal has led to a vicious power struggle within the LDP. A two-week stalemate between the LDP and the opposition parties over which LDP leaders should testify to the parliament over their involvement in the affair has delayed passage of the supplementary budget needed to implement the Y10,700bn (\$12bn) emergency spending package announced in August.

There were signs last night that the parties were edging towards a compromise on the testimony issue to allow debate on the budget to proceed.

Decline in land prices accelerates

By Charles Leadbeater

LAND prices in Japan's largest cities have fallen by about a fifth in the last six months, threatening to exacerbate the Japanese banks' mounting problems with non-performing loans to real estate developers, according to a report published yesterday.

The report by the Japan Real Estate Institute said that commercial land prices fell at an annual rate of 22.5 per cent in the six largest cities, Tokyo, Yokohama, Nagoya, Kyoto, Osaka and Kobe in the six months to the end of September. Residential land prices in the cities fell by about 20.5 per cent.

The institute said the falls were the worst results since it started the survey in 1986.

The confirmed fall in land prices will eat into more of the collateral used for many of the real estate loans which the banks made during the boom in land speculation in the late 1980s. The collapse in real estate prices is the main reason for the sharp rise in the bank's non-performing loans over the past year.

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STUDENTS PROTEST: Students from New Delhi colleges shout slogans against the so-called "Mandal report" yesterday. The report sets a reservation quota of 50 per cent for lower castes and tribal groups in university admissions and government jobs

Pretoria rejects 'army plot' evidence

Gen Steyn is to assume control of all covert operations, but serving commanders will not be removed.

The length of the day-long cabinet meeting on the inquiry decision highlights cabinet divisions over the issue with some members now in favour of curtailting Judge Goldstone's power, and others arguing for a "clean up" of military activities.

An ANC leader urged residents of one of South Africa's most violent townships yesterday to stop endemic gang warfare he said was fomented by state security forces.

Gen Steyn, who is understood to be a relatively *verlig* (enlightened) officer, is to conduct his investigation in parallel with Judge Gold

NEWS: UK

Alleged errors fuel school rankings row

By Andrew Adonis, Bethan Hutton and Alan Cane

CONTROVERSY over the government's exam results league table intensified yesterday with a catalogue of complaints and errors and the revelation that the government employed two private contractors to compile its statistics.

The use of small private contractors to gather and process the examination statistics led last night to allegations that the government had failed to supervise the operation and ensure its statistics were accurate.

Manchester High School for Girls is considering legal

action after its league table entry stated that only 16 per cent of pupils gained five or more GCSEs at grades A to C. The correct figure was 100 per cent, and the head mistress said she "repeatedly" told the department of the error before publication.

The education department said it was "seriously investigating" all complaints. Mr John Patten, education secretary, has not apologised for errors in the league tables, but will, however, appear before the Commons education select committee next Wednesday to be cross-examined.

The main contractor, PMS Communications, a small Bir-

mingham-based company employing 30 people, specialised in computer systems for the education sector. Last night it said the allegations of mass inaccuracies were mainly the result of rules laid down by the Department for Education.

PMS, a niche company not well known in the data processing industry, has in the past carried out contracts with examinations boards, but it has no experience of operations on this scale.

Mr Craig Peppiatt, a PMS director, admitted there were some errors, but said: "That is the sort of thing which is bound to happen in the first year."

He said most of the problems arose because of misunderstandings about the basis upon which tables were compiled and lack of time for schools to check their results. The role of the second contractor, Bath university, was itself a source of controversy last night, with PMS citing it as a separate contractor and the Education Department denying any knowledge of it.

Computer analysts said in PMS's defence that the principle of "gigo" - garbage in, garbage out - seems to have applied.

Data analysis specialists emphasised the care needed in designing surveys if the right

data is to be collected. The row dominated prime minister's questions in the Commons. Mr John Smith, Labour opposition leader, accused the government of having "botched" the results. Mr John Major said it was "hardly surprising" there were errors since it was "the biggest exercise of its kind undertaken by the government".

Numerous other cases of inaccurate information surfaced, including cases of schools which pool their sixth forms being shown as having no A-level entries of their own.

Cambridgeshire county council said the tables included 53 errors for their schools alone.

Watchdog asked to sniff out suspected perfume monopoly

By Guy de Jonghuijs, Consumer Industries Editor

THE OFFICE OF FAIR TRADING yesterday asked Britain's monopolies watchdog, the MMC, to investigate whether perfume manufacturers are illegally restricting supplies of fine fragrances to keep retail prices high.

The decision marks a victory for Superdrug, the cosmetics chain, which sells leading fragrances at discounts of up to 30 per cent on the normal retail price at 15 of its 570 stores.

Superdrug, part of the Kingfisher retail group, has complained to the OFT that leading manufacturers such as Givenchy and Yves Saint Laurent have refused to supply it directly, forcing it to obtain their products more expensively on the "grey" market.

The investigation will focus on whether manufacturers have denied supplies to cut-price shops by applying

unfair standards governing the sale of their products in retail outlets.

The MMC, which has nine months to report, will also examine complaints by Superdrug that national magazines and newspapers have refused to accept advertisements for its fine fragrances to keep retail prices high.

Superdrug says it has been unable to obtain perfumes directly even though it has sought to meet the manufacturers' standards by investing in special counters staffed by trained sales assistants.

The OFT has studied the case for almost a year. It was unsure until recently whether it could act, because the European Commission has exempted from EC competition rules some restrictions imposed by perfume manufacturers on distribution.

Sir Bryan Carsberg, director general of fair trading, said yesterday he was not seeking to negate the EC exemptions.

But some of the supply restrictions were not covered by the exemptions and could violate Article 85 (1) of the Rome Treaty, which outlaws anti-competitive trade practices.

He wanted the MMC to assess whether these restrictions were in the public interest and were being used indirectly to maintain retail prices in violation of the law.

He also asked the MMC to examine whether the EC exemption system should be modified to ensure it was applied fairly.

According to the OFT, UK sales of fine fragrances - defined as perfumes, toilet waters and after-shave lotions with a retail price of more than £15 for 50 millilitres - total about £180m a year.

As well as Givenchy and Yves Saint Laurent, leading suppliers include Chanel and Christian Dior. None of the companies would comment yesterday.

Britain in brief

BA averts strike by ground staff

BRITISH AIRWAYS has averted strike action planned for today by conceding to union demands for consultation over new pay and conditions for ground staff at Gatwick, London's second airport.

More than 1,200 staff, including booking and ticket sales staff, had voted overwhelmingly for strike action over the airline's imposition of pay cuts averaging 5% per cent and BA's failure to operate negotiated consultation procedures at a local level.

The row follows the airline's acquisition of Dan-Air, formerly the UK's oldest independent airline - for £1 - and the introduction of new pay scales for staff in the newly formed subsidiary company known as British Airways Gatwick Services without consultation. BA has now agreed to follow negotiated consultation procedures after the members of TGWU general union voted 90% to 11% in favour of a strike.

Airlines seek legal review

VIRGIN ATLANTIC and Airlines of Britain Holdings, the owners of British Midland, are expected to apply for permission to seek a judicial review of the government's failure to refer the takeover of Dan-Air by British Airways to the Monopolies and Mergers Commission.

Runway plan reconsidered

MANCHESTER AIRPORT has widened the search for where to build a second runway after mounting protests from residents' groups about the environmental impact of nearly doubling the airport's size by the end of the century.

Increase in restaurants

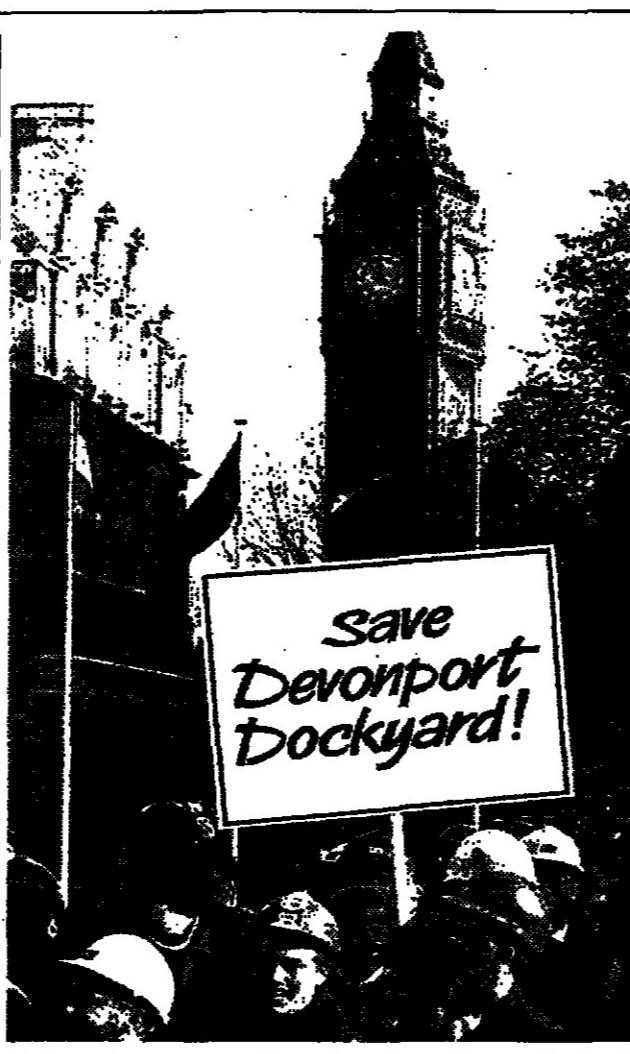
THE number of large, high-quality restaurants opening in London this year has been greater than at any time since 1986, according to a new report by the editors of the *Harden's London Restaurants* guide.

Award for FT writer

ANDREW TAYLOR, construction correspondent of the Financial Times was judged business and financial journalist of the year in the International Building Press Journalism awards.

Pollution details protected

POWER stations should be allowed to keep secret some details of the pollution they emit on grounds of commercial confidentiality, according to the first government decisions under new environmental legislation. Mr Michael Howard, environment secretary, accepted an appeal by National Power that details about future emissions at its power stations should not be made public because they would reveal its future needs for fuel to its commercial disadvantage.



Workers from Devonport naval yard, south-west England, demonstrating against the yard's threatened closure at Westmoor yesterday. They fear large job losses if they lose the contract to maintain Trident submarines. Photograph: Fergus Wilkie

Nissan shifts export operation

By Chris Tighe

NISSAN, the Japanese car manufacturer, is to move its export and import operations from Teesside to a new custom-built terminal on the River Tyne in north east England, it announced yesterday.

The arrangements will include the export of cars made at Nissan's UK plant in Tyne and Wear, to 30 countries, through Teesside, which opened in 1970 as an import operation by the now-defunct independent distributor Nissan UK. When Nissan began exports from its Sunderland plant in 1968, it decided to use Nissan UK's Teesside facilities.

But when relations with Nissan broke down last year, the car maker began detailed evaluation of its future shipping needs, assessing quality of service, cost and efficiency levels offered by six north east England locations. Criteria included deep water needed for Nissan's huge 5,500-car "mother ship".

Since 1986, Nissan has

exported 357,000 Sunderland-made cars, nearly all through Teesside, which this year is also handling 40,000 imported Spanish and Japanese-built Nissans.

Under the new deal a small number of Sunderland-made cars will still be exported through Southampton.

Output of Primera and Micra at Sunderland, 175,000 this year, will rise in 1993 to 270,000. At least 70 per cent will be exported. In 1994, Nissan plans to export more than 200,000 Sunderland-made cars from the Tyne.

Because the Tyne is closer to Nissan's Sunderland plant and adjacent national distribution compound, car transporter movements will be reduced by 90,000 miles a year. Nissan's 37 Teesside employees will be offered work at the Tyne terminal.

Halt in funding for fast reactor research criticised

By David Lascell and Alison Smith

THE UK nuclear industry reacted angrily yesterday to the government's decision to cease funding for research and development of the European fast reactor, the joint programme by the UK, France and Germany. But it was welcomed by others, given the uncertain outlook for nuclear power.

Mr Tim Eggar, energy minister, told MPs the government could not justify continuing since the design validation stage had been completed and there was "general agreement that the commercial deployment of the fast reactor will not be justified until well into the next century".

He said that about 270 jobs would be lost, roughly 40 at Dounreay, Caithness and about 150 at Risley, Cheshire. Some 40 people were also likely to be made redundant at Winfrith, Dorset.

Although the government's decision is not linked to its efforts to save jobs in the coal mines, it comes at a time when the nuclear industry feels vulnerable to cutbacks.

In a joint statement, Nuclear Electric, Scottish Nuclear, British Nuclear Fuels and AEA Technology - all government-owned - said they "greatly regret" the move. Mr John Collier, the chairman of Nuclear

Electric, said there were signs of growing interest in fast reactors in Japan, the US, Russia and Spain. "The irony of the government's decision is not lost on UK industry," he said.

Despite Mr Eggar's insistence that the government was following a recommendation made by the cross-party Committee on Energy, it should review the position at the end of the design validation process, he came under attack from MPs across the Commons.

Tory and opposition MPs pointed out that Japan, America and other countries were continuing with their research, and they warned with dismay of the consequences of the UK giving up its lead in this field, since it was impossible "to mothball nuclear physics".

Rejecting the charge that the government was not committed to the research, Mr Eggar said that over the past 40 years more than £4bn (at 1992 prices) had been spent on the project, of which £1bn had been since 1979. Fast reactors have long embodied a dream of virtually boundless energy. They burn uranium much more efficiently than regular nuclear power stations, and their early impetus came in the 1970s when fears of oil shortages caused governments all round the world to seek new sources of power.

The power industry has changed radically since then. Oil and gas supplies have proved plentiful and cheap, as has uranium. But the cost of fast reactors has soared, and no country has been able to develop a commercial programme. Outside Russia, which has the most developed fast reactor industry, only Japan is close to launching a new prototype. In both France and Germany, programmes are stalled.

The European collaboration which the UK pulled out of yesterday was an effort to surmount these hurdles. The nuclear lobby argues that the basic case for fast reactors remains strong because of the long-term needs for diverse fuel supplies and the technological spin-off. A further reason is to burn the plutonium now being removed from redundant nuclear warheads.

But the UK government has been cooling off fast reactors for some time and it had already announced withdrawal of funding for the UK prototype at Dounreay.

Mr John Cheshire, environment secretary, accepted an appeal by National

the reason why...

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MANAGEMENT

Of all the benefits provided to employees, perhaps none is more costly than a good pension scheme. Employers typically contribute anywhere from 10-12 per cent of payrolls to finance the classic "final salary" scheme - no small outlay.

Yet, as an increasing number of employers is discovering, the pension is among the least understood and appreciated of all benefits on offer. Mark Duke, benefits consultant at actuaries Towers Perrin, says that an increasing number of corporate clients are conducting surveys of employees' attitudes to various benefits. "You often find that employees' appreciation is in inverse proportion to the expenditure involved," he said.

Towers Perrin's own employee studies have found, for instance, that the company car and subsidised mortgage mean a lot more than the really high-cost items such as pension.

Why, then, do employers bother? According to Charles Evans, partner at actuaries Mercer Fraser: "The traditional view is that it helps recruitment, motivation and retention. It is also promotion for the company's image. You can see this is a company which cares about its employees. And it really does help retention." More generally, pensions remain on offer because employers feel they must offer them in order to be able to compete for the best staff, adds Evans.

The need to offer the same benefits package as other employers in similar industries has been one factor inhibiting large companies from curtailing pension benefits and, indeed, has encouraged their enhancement over time.

PERKS: Norma Cohen continues the series with a look at one of the most expensive benefits that companies provide for their employees

Why pensions pay off

But if employees, particularly younger ones, do not know or care about the structure of pension benefits, why do employers continue to insist that they must offer them? Significantly, figures from the National Association of Pension Funds' latest survey show that in 1991 some 16 per cent of all new employees rejected the opportunity to join their company scheme.

And since 1988, when membership in an employer's occupational scheme became no longer mandatory, the number of scheme members in Britain has fallen. While this may partly reflect demographic trends, it is clear that some employers are electing either to join personal pension plans or none at all.

Some pensions experts argue that pension provision is not wholly a charitable exercise. Employers earn benefits other than a happy workforce.

"The reasons are tax, tax, tax," says John Cunliffe, partner at McKenna and Co and a leading pensions lawyer. Employers' contributions to a scheme are tax deductible and investment income rolls up tax-free. Those employers who avail themselves of the surpluses through contributions holidays are, in effect, able to make use of tax-free investment gains to offset expenditure.

Also, Evans points out, the availability of a fully-funded pension scheme offers an employer a relatively painless way of funding redundancy. Pension benefits can - and frequently are - enhanced to induce workers to leave quietly, without threat of industrial strife and with no effect on profits.

Kevin Spring, partner at international benefits consultants The

Sons are shrouded in history. Since the 1920s, when employers first began offering organised occupational pensions, they have grown to the point where they now account for more than 70 per cent of retirement income. The growth of occupational pensions has blunted political demands for more generous state provision and Britain has one of the least generous schemes in Europe.

Says Amy: "We are now in a situation where there is no alternative state provision." He feels his company has no alternative but to provide a good scheme. "But we also have had the phenomenon in the 1980s of pension fund surpluses which have sharply reduced the cost. Perhaps the real question is what will happen when the contributions holidays are over and companies begin to make up the difference again."

Already, there are rumblings that the classic final salary scheme, which promises workers two-thirds of their last year's pay, is under threat. Trevor Crowder, principal actuary at EPMG Peat Marwick Actuarial Services, notes that among small companies, the trend is towards so-called money purchase schemes. Instead of guaranteeing a worker a set pension for as

long as he or she lives after retirement, these offer a lump sum instead. The sum should be sufficient to guarantee the purchase of an annuity, but they rarely offer inflation indexing or other benefits attached to final salary schemes.

However, from the employer's point of view, money purchase schemes cost less and are thus more attractive. Meanwhile, the recent wave of pensions legislation, and the promise of more to come, is driving up costs. Since 1988, for instance, employers have been required to increase the value of deferred pensions by up to 5 per cent a year and, when the provisions of the 1990 Social Security Act come into effect, pensions being paid will have to be increased by a similar amount.

Earlier this year, Standard Life, one of Britain's largest insurers, announced that it would no longer offer final salary schemes - widely interpreted as a sign of shrinking demand for a product of increasing complexity and cost.

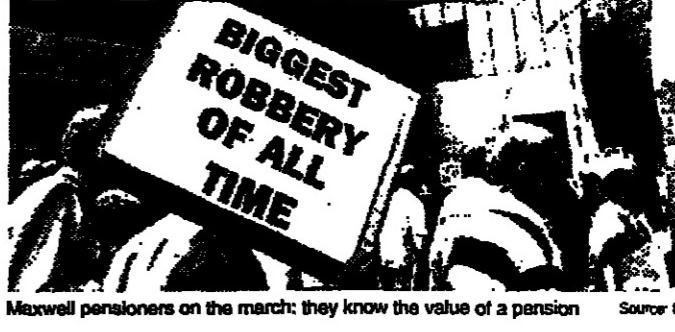
"There is an element of paternalism here on the part of British employers," says Brad Nelson, head of employee communication at Towers Perrin. "And I wonder how long they can reasonably be expected to keep that up."

How the schemes operate

	PRIVATE	PUBLIC	ALL SCHEMES
Full holiday	34%	13%	33%
Reduction	14%	21%	14%
Sample size	810	63	873

	PRIVATE	PUBLIC	ALL SCHEMES
Actively encouraging new employees	53%	76%	92%
Sample size	371	17	388

	PRIVATE	PUBLIC	ALL EMPLOYERS
Average of eligible employees entering scheme	84%	85%	84%
Sample size	438	25	463



Maxwell pensioners on the march: they know the value of a pension

Source: NAPF

the fundamental nature of the type of transformation involved. It also helps separate "genetic" changes, such as those at US General Electric since 1981, from less broad and deep changes.

Again conflicting with much conventional wisdom, Blumenthal and Haspel say there is no one "correct" combination of these three processes, nor sequence in which they should be attempted.

The duo ends with two wise maxims. First, that transformations of any kind are more easily started than completed - especially if middle management cannot be converted solidly to the new approach.

And second, that the need to transform never ends. Even highly adaptive, "self-renewing" companies, such as 3M and Hewlett-Packard, need periodic and carefully-engineered transformation. So how about your organisation?

Corporate Transformation: Analogy and Distinctions. Instead for no (France) 33-607242-2

Christopher Lorenz assesses new research aimed at helping companies to revitalise themselves

Different routes through the minefield of change

Unlike journalists, most academics are slow to commit their thoughts to paper. Even business school professors can take six months to write a short treatise.

So congratulations are due to two slightly scholars for taking only four weeks to come up with a very practical paper on one of the hottest issues of the moment: how selected companies (even ones still thriving on past success) can set about transforming themselves into lean, agile and creative predators capable of seizing on every future shift in the competitive environment, and turning it to their advantage.

From General Motors to IBM, British Airways to thousands of small companies, the tricky topic of how to handle this type of radical change preoccupies almost every company these days.

Two of the puzzled academics at

the conference were Dr Barbara Blumenthal, of Temple University, Pennsylvania (she also works for Gemini Consulting) and Professor Philippe Haspel of Insead, one of Europe's top business schools. Their reaction to the post-conference confusion was to get together and thrash out a working paper which knocks some welcome order into the subject. In many respects it contains more sense than some previous books on it.

In essence, the duo's message is as follows. As distinct from the simple word "change", a corporate "transformation" is very considerable in both scope and depth. A litmus test is whether the behaviour of most people in the organisation is affected significantly.

There are three basic types of transformation process, each of which may include radical changes in culture. In other words, cultural change is not a separate category, as most academics and consultants would maintain. Nor, as companies are usually advised, must a transformation process necessarily focus directly on issues of competitive strategy if it is to succeed.

The three most common types of transformation process, say Blumenthal and Haspel, are:

- Radical operational improvement. Typically, this involves thorough redesign of business processes, supported by changes to structure, skills and behaviour.

• Strategic transformation. Some strategic changes, such as mergers

do not always imply transformation. Fundamental changes in culture may include radical changes in culture. In other words, cultural change is not a separate category, as most academics and consultants would maintain. Nor, as companies are usually advised, must a transformation process necessarily focus directly on issues of competitive strategy if it is to succeed.

Such transformation can be attempted in several ways. One is the traditional top-down approach, which can work in some cases. An increasingly popular approach, dubbed "strategic framing", involves top management defining the company's strategic intent, as at Motorola, but then encouraging a great deal of experimentation and challenging of actual strategies by middle managers.

Some experts advocate a more minimalist view of the top team's ability to set even just strategic direction, and call for middle man-

agement to take the lead in a "middle-up" approach. They claim that the current chaos at Digital Equipment is of this kind, and was stimulated deliberately.

• Genetic re-engineering. This is out in a category of its own, compared with the other two. It involves efforts by top executives to instil a management approach which is able constantly to renew the organisation, by anticipating and coping with change whenever big market changes occur. This involves creating a host of new structures, processes and behaviours, including culture change.

The term "genetic re-engineering" is jargon and, as a metaphor drawn from science, is not strictly accurate. But it certainly conveys

WHEN WAS THE LAST TIME YOU HIT AN ELK?



Sweden is a land populated by many elk that sometimes leave their forests and stray onto unprotected roads.

The adult elk is large, heavy and mostly dark in winter; the Swedish countryside is mostly dark as well. Which explains why surprised Swedes

drivers and elk often collide. Apart from elk, Sweden offers other unexpected road hazards like ice, snow and mud.

Fortunately, Swedish roads are populated with many Saab 9000s. (In four separate international car safety studies, Saab headed the lists.) Saabs

have crumple zones at both ends to absorb the energy of a collision should you unexpectedly make contact with a large, dark animal.

And airbags* and seat-belt tensioners should you be thrown forward. But if you take prompt avoiding action, the Saab 9000 has ABS** fitted as

standard to prevent your wheels from locking when you swerve while braking heavily.

The elk might be left undamaged but bemused. And wondering why every intelligent human doesn't drive a Saab 9000.

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*Saab 9000 Model Year '93. Standard in certain countries. Available as extra everywhere.

**Non standard on all Saab 900 models in DK, SE, SF, N.

TECHNOLOGY

Vour best silk tie may boast an international name such as Gucci, Polo or Aquascutum on the label. But there is a fair chance that it was woven in a small market town in Suffolk.

Vanners Silk Weavers make some 30,000 silk ties every week, 80 per cent of which are sold overseas. Keith Parker, technical director of Vanners, ascribes the company's success in the fast-moving fashion industry to its application of the latest technology. "It's the only way we can stay ahead," he says.

For Britain's mills, once called dark and satanic, the job has not been easy. Until a few years ago, Vanners had to store details of all its tie designs on miles of punched cards - the likes of which have been in use since the jacquard loom was invented in 1803.

Now the Sudbury-based company is converting to memory cards, which have recently proven popular in the portable computer and electronic diary markets. In opting for memory cards, Vanners has skipped whole generations of computer storage technology.

The basic problem for weavers was the noise and vibration of the giant jacquard looms - Vanners has 64 of them - together with other environmental hazards such as dye works. These meant that the more fragile floppy or hard discs could be easily corrupted or destroyed.

The steel-enclosed memory cards, on the other hand, are much more reliable. "You can drop them from six feet on to a concrete floor and they will still retain their data," points out Sherry Garber, product co-ordinator at US market forecasters Instat.

For Vanners, the move from punched card to memory card will save both space and money. Today, three bays at the Sudbury mill are completely taken over by the punched cards: a wedge of cards nearly a foot thick can represent a single pattern. In contrast, one memory card - a mini printed circuit board packed with memory chips and a battery - can store eight designs.

More important, the technology will help Vanners react more quickly to changes in the fashion. The company needs to produce four collections a year for spring, summer, autumn and winter wear.

There are also national variations, explains Parker. Although every country may want brighter designs for spring and summer, customers in Italy favour different variations from those in Japan.

Once the sales staff has shown the latest fashion designs to customers, changes may be needed in the pattern or the colour. Vanners has 480 different coloured silk

Della Bradshaw explains how electronic memory cards are helping weavers react swiftly to changes in fashion

Edging ahead by a neck



Keith Parker, technical director at Vanners, with a selection of the 480 coloured silk threads used for weaving ties

threads to choose from. If that happened it could take up to two hours to produce the cards needed for a complicated design - a peacock paisley, say - using the punched card system.

There are up to 50 new designs produced every week. And the problem is compounded on a long production run, where the paper card can become dirty and damaged and so a second one has to be made.

With the memory cards, it takes only three seconds to feed the data from the design room through a computer network to the individual loom, or weaving machine. There it is stored on an S-Ram memory card. These incorporate static random access memory chips, on which data can be stored and then erased so that the card can be used again.

The memory card is inserted into the dashboard of the helicopter for the flight and then taken by the pilot, on landing, to a personal computer at the landing station. There the data is analysed.

But it is in the mobile computer

of customers entered the mill with their design they were able to see the tie, albeit a simple pattern, roll off the loom.

The toughness of computer memory cards has found them a ready home elsewhere, such as in point-of-sale applications in shops or pubs, where they are used to log purchases for stock control purposes. Another example of memory cards being used in data collection is at Bristol Helicopters.

The basic problem for the helicopter company, says David McKay, software manager, was how to monitor and record the performance of various components when the craft was in flight, in order to prevent component failure.

The memory card is inserted into the dashboard of the helicopter for the flight and then taken by the pilot, on landing, to a personal computer at the landing station. There the data is analysed.

But it is in the mobile computer

marketplace, in machines such as the Sharp or Hewlett-Packard palm-top or the Amstrad notebook, that memory cards have shown most potential. Unlike a floppy disc, the steel-enclosed cards can be slipped into a jacket pocket without fear of damage.

The impetus behind the take-off of memory cards in the PC industry has been the ratification of standards, so that cards from one manufacturer can be interchanged with those from another.

It was with this in mind that the Personal Computer Memory Card International Association (PCMCA) was set up in 1989. It issued its first standard in September 1990 and a new format will be released on December 1 this year.

Members of the PCMCA include Japanese-parented companies such as Mitsubishi Electric, Toshiba and Fujitsu as well as US chip and PC companies like Apple, Intel and Texas Instruments.

Although the cards based on S-Rams are popular now, they look set to be eclipsed by cards incorporating flash memory chips. Unlike S-Ram cards, these retain information when the power is switched off without the need for a battery. Flash memory chips are erased by a flash of electricity that takes less than a second.

Flash memories also have a higher storage capacity. Today's commonly-available S-Ram cards have up to 2Mbytes of memory - enough to store 2m alpha-numeric characters - although cards with twice this capacity will be widely available next year, says Colin Mason, engineering manager in the semiconductor division of Mitsubishi Electric in the UK.

For weaving applications, a group of S-Ram cards suffice in most cases, says Jay Hale, sales and marketing director for Bonas Machine Company, which makes Vanners' electronic machine.

But for more widespread applications - where a computer user would transfer a memory card from the desk-top machine to a portable or an electronic diary - more memory will be needed for storing programs and data. Today's flash memory cards can store up to 20Mbytes but the technology has drawbacks.

Flash memory cards are power hungry and data can only be erased in chunks. With S-Ram cards individual bits of data can be erased - as with a floppy or hard disc.

Both these drawbacks are already being addressed by chip makers. As a result, Walt Lahti, vice president on Instat, says that the worldwide market for flash memory cards, worth just \$7m (£4.6m) worldwide in 1991, could be worth \$33m this year and \$93m by 1997.

Lahti predicts the big growth market will be in what he calls the "sneaker net" market, where users will take a disc out of one PC and then run around with it, using it in several other machines.

Mobile phones could be another potentially enormous market, as could home photography, where the photographer would use the memory card in a camera instead of film and then transfer the pictures on to an optical disc or other long-term storage device so that they could be viewed on the television screen.

Both Eastman Kodak and Polaroid

are members of the PCMCA.

As PCs work their way into the factory environment, replacing today's minicomputers and servers, flash memory cards will also find more widespread industrial applications, predicts Mason.

Meanwhile, back in the weaving industry S-Ram technology has still a potentially huge market waiting for it, explains Hale. "Ninety per cent of the world's Jacquard machines still use punch cards."

Worth Watching • Della Bradshaw

are porous. Pennsylvania State University: US, \$14 855 3421.

Health, safety and the environment

Next week is the UK's National Health, Safety and Environment week, and with that in mind many companies might be considering how to improve their safety record. One aid could be a software package developed by Datax of Enfield, north London, to help companies analyse where accidents occur and so help to minimise them.

The Accidat accident management system helps employers comply with the law by providing the forms on screen in particular for filling in forms. But back at the office the data has to be downloaded into the office computer system.

To make life easier, pen computer specialist Grid, part of the Tandy group, has developed a computer which combines the best of both worlds. The screen can be written on with the attached stylus. It then swivels back to reveal a keyboard which can be used to incorporate the data into, for instance, a report.

The Grid Convertible costs £2,700 and comes with MS-Dos and Microsoft's Windows software designed for pen computing. Tandy Grid: US, \$17 390 3100; UK, £1 897 6565.

Business travellers enter US quicker

If you stagger from a transatlantic flight to face a long immigration queue behind hundreds of tourists entering the US, then relief may be at hand, writes Evelyn Brodie.

Next month the US Immigration and Naturalisation Service will issue biometric cards to frequent business travellers from the US or elsewhere. The cards contain nine pieces of information about the passenger's hand, such as the length of the fingers. People with cards will go down a separate aisle at immigration, insert the card into a machine and their hand into a window. If they match, the traveller is admitted.

The cards will be used initially at two airports - Newark and JFK. INS: US, 202 514 2643.

Taking a shine to synthetic diamonds

A diamond chunk the shape of an eagle is the promise of a technique developed at Pennsylvania State University for producing cheaper industrial diamonds. The process borrows techniques from the two existing methods of synthetic diamond production, but adds an ingredient of its own - a fine powder of silicon or metal dust.

As with the original General Electric process, the technique starts with solids - graphite, carbon or wood. This is mixed with the silicon or metal powder and then heated in an atmosphere rich in atomic hydrogen - in a similar way to the chemical vapour deposition process.

The shape of the final diamond product can be determined at the beginning of the process - a wire, sheet or cube. The method can produce solid diamonds in layers of up to about 50 microns, but the larger diamond shapes

are members of the PCMCA.

As PCs work their way into the factory environment, replacing today's minicomputers and servers, flash memory cards will also find more widespread industrial applications, predicts Mason.

Meanwhile, back in the weaving industry S-Ram technology has still a potentially huge market waiting for it, explains Hale. "Ninety per cent of the world's Jacquard machines still use punch cards."

PEOPLE

UK gathers AT&T's regional experience

James Mellon has been appointed managing director of AT&T's international operations division in the UK.

He will have two main responsibilities: managing the US telecommunications giant's correspondent relationships with British Telecommunications and Mercury Communications, which govern more than \$1bn of international traffic between the two countries, and developing the services AT&T offers its customers.

Mellon says he is the first AT&T manager to work in all the world's three big regions.

In his last job, he looked after AT&T's correspondent relationships in South America.

and Africa, working out of Florida. Before that, he spent nearly four years in Hong Kong managing relationships with China, Hong Kong, Taiwan and Macao.

His new post is a "rounding job", he says, which would give him an understanding of the world's post, telephone and telegraph companies (PTTs). Aged 45, he has been with the AT&T group for 18 years, starting his career at New England Telephone, which is now split off from AT&T.

Although Mellon says his main goal would be to build on the existing relationships "which are very profitable to both sides", he would not rule out satisfying customers' needs by competing with BT if that proved necessary.

In recent years, AT&T has examined the possibility of acquiring stakes in GPT, the UK telecommunications manufacturer, and Mercury, but in both cases negotiations broke down. There has also been speculation that it was interested in buying the Vodafone Group, the mobile communications concern.

However, Mellon says it would be "speculative" to comment on the possibility of making any moves of a similar nature, but he confirms that such acquisitions would come within his responsibility.

Cicurel moves to ICD

David Cicurel, currently the French chairman of International Media Communications, the USM-quoted video products and soft drinks company, is to be appointed the new chairman of International Communication & Data, following the enforced retirement through ill-health of the incumbent, Nigel Balcombe.

Daniel Unger, interim chairman of ICD, says IMC had agreed to provide Cicurel's services to ICD in return for an option to subscribe for 6.85m ordinary ICD shares (12.2 per cent of its equity) exercisable within three years at 7p apiece.

USM-quoted ICD supplies names, addresses and information to the direct mail/direct marketing industry.

Insurance moves

Colin Honey, 50, has been appointed deputy managing director of Domestic & General, the fast-growing insurance company which specialises in insuring domestic appliances.

Honey is being groomed to take over as managing director next summer from Howard James who is planning to take life easier following a serious operation. James will remain on the board as a non-executive director.

James' planned retirement ends a 17-year partnership with Martin Copland, Domestic & General's 52-year-old chairman. Domestic & General was floated on the unlisted securities market in 1988 at 185p. Since then its shares have risen nearly six-fold. By concentrating on a specialist niche - it has more than 2m policyholders - it has managed to escape the downturn in the rest of the insurance industry.

Commercial Union, the most successful of the UK composite insurers, is continuing to make extensive use of the expertise of former city analysts who have joined the company in recent years.

Peter Rice, who joined CU from County NatWest in 1988, is appointed a UK divisional director. Chris Pountain, who made his name at Morgan Stanley and other securities houses before joining CU earlier this year, succeeds Rice as group corporate finance and planning manager.

Pountain, 39, and Rice, 42, are both qualified actuaries.

Constructive careers

Michael Richardson (above left), formerly a director of EEC Holdings and Fairchild Building, has been appointed mid of BOVIS CONSTRUCTION director at Bristol.

Keith Charlton has been appointed mid of BELLWAY HOMES' north west division; he moves from Connolly Homes and succeeds Gerry Hamilton who becomes strategic land director of Bellway estates division.

Gordon Dibble, formerly executive vice-president and chief operations officer of John Brown's US business units, is promoted to mid of JOHN BROWN Engineers & Constructors Ltd, London; he succeeds David Moorhouse who becomes chief executive of the John Brown engineering & construction sector.

Chris Marsden, a director of BALFOUR BEATTY BUILDING, has been appointed director of its northern region.

Doug Chalmers, project director of Broadgate Development, has been appointed BELLWAY CONSTRUCTION director at Bristol.

Barbara Mills, director of public prosecutions.

Garside says the most contentious issue she faces in taking

over an outfit that has



tional forum is very much American-dominated, and that there is, for instance, no offshoot in Germany as yet. Garside, who was brought into Forum UK at the beginning, spent 10 years, until 1989, studying and working in America. She took a masters in hospital and health care administration from the University of Minnesota, and spent six years at Health One Corporation, Minneapolis, where she runs her own consultancy "New Health". She is director of organisational development at North West Thames Regional Health Authority, and is a visiting fellow of the school of management at Imperial College.

New chairman for Forum UK

Baroness Denton, who founded Forum UK, one of Britain's top women's networks, is stepping up to become president; she is to be replaced as chairman by Pam Garside (right), who takes over for a two year period.

Forum UK, which has 175 members and is part of the International Women's Forum, was founded in 1986. Its members meet two or three times a month, including a regular breakfast at the Ritz. Employment secretary Gillian Shephard is a member, as is Barbara Mills, director of public prosecutions.

Garside says the most contentious issue she faces in taking

over an outfit that has

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THE PROPERTY MARKET

The allure of warehouses

The sector's attractive yields have caught the eye of investors and developers, writes Vanessa Houlder

The humble warehouse has long been regarded as one of the least glamorous sectors of the property market. That dowdy image, however, is in part responsible for its landable record as one of the industry's most successful sectors.

In the 1980s, speculators' neglect of this seemingly unpromising market helped protect it from the oversupply that plagued the rest of the industry. That, in turn, helped warehouse properties generate returns of 22 per cent over the past five years – more than double the market's average.

However, the sector's reputation is changing. High yields, low management costs and the availability of new leases with good covenants have attracted new investors in the past couple of years. At the same time, a flurry of interest from developers has raised the possibility of oversupply.

Recent concern about oversupply is well founded, according to a new report¹ by Chesterton, the property consultancy. "Caution is required to prevent the bandwagon effect which led to oversupply in the B1 [light industrial and other business uses] market," it warns.

The shift in attitude stems in part from far-reaching changes within the distribution industry itself. Modern warehouses are larger, more carefully positioned and more sophisticated than ever before – a trend that is most visible in the big distribution parks that have emerged along the M1 and M6 motorways throughout central England.

The impetus for change in the distribution industry has come from the need for improved response times and more frequent, faster

Warehouse properties have generated returns of 22 per cent over the past five years

deliveries. This has stemmed from the heavy costs of holding stock, the relative fall in transport costs and the increasing dominance of the large retailers.

"The conventional warehouse of the early 1980s is now becoming increasingly outdated," says Chesterton. "As the level of sophistica-



Market lift: new distribution practices have also fuelled demand

tion continues to increase, so the life of the building shortens and the rate of obsolescence grows."

Large retailers, particularly grocers, have been the driving force behind such changes. From the mid-1970s onwards, they began to switch from local distribution systems controlled by suppliers to their own regional or national distribution networks. Other types of retailers have gradually followed suit, although many are still grappling with the need to centralise their distribution networks. Most manufacturers are even further behind, having concentrated on rationalising their production facilities in the 1970s and 1980s.

The momentum of these changes has been checked by the slowdown in the economy. "It has been slowed down by recession but it is still happening," comments Mr Christina Howick, a partner of PMA, a London-based property consultancy.

Even without the recession, the distribution industry is faced with some important challenges and

uncertainties, including:

- The road versus rail debate, which has important implications for the location of distribution centres. The case for distribution by rail is enhanced by the costs of congestion, pollution and other environmental concerns. However, many manufacturers and retailers are sceptical of the rail industry's ability to provide the right level of service and reliability.
- The single European market, which is prompting manufacturers to review their manufacturing and distribution operations on a pan-European basis. Companies wanting to service the northern European market from one location are likely to favour northern France, Belgium, Germany and Holland over the UK.
- The future supply of land for warehouses. Chesterton reports that investors are concerned about the high allocation by local authorities of land for distribution uses. This could depress the rate of rental growth, investors fear.

At present, the distribution of land with planning permission for warehouses is very uneven. The south-east and east Midlands have more land with detailed planning permission for such use than other regions.

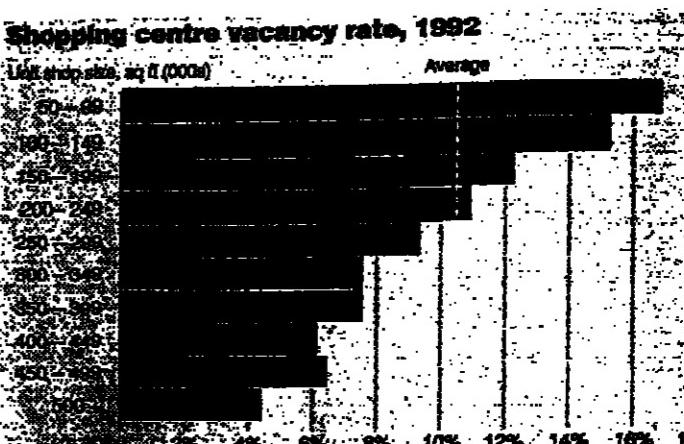
This concern contrasts with the complaints of developers about what they consider to be restrictive planning policies. "There is a dearth of constructive planning policies on the subject which is hampering British industry," complains Gazeley Properties, a leading warehouse developer.

● Pressures for shorter leases, particularly for second-hand space. "Short-term distribution contracts are typically three to five years and there may be resistance to an institutional lease of 25 years," says Chesterton.

As well as these uncertainties, warehouse property has the disadvantage of large average let prices – often costing more than £10m. This, combined with the specialist nature of these investments, heightens the risk involved in replacing a defaulting tenant.

These risk factors justify a higher yield than other kind of property. Indeed, Chesterton believes that some yields have been driven down to unrealistic levels. The growing availability of research and awareness of this class of property are likely to stimulate continued interest among investors. But the downward trend in yields suggests that the re-tetting of the sector over the last few years may have run its course.

* Shredding Light on Warehousing and Distribution, Chesterton Research Department, 54 Brook Street, London W1A 2BU, E55.



VACANCY RATES in shopping centres

are markedly higher in small schemes, according to new research by Hillier Parker, the chartered surveying firm.

Many smaller schemes do not have sufficient critical mass or sales potential to attract large chain retailers and strong independents, according to Hillier.

The

average unit shop vacancy rate in schemes opened between 1985 and 1990 is just 5.7 per cent – well under average high street levels – compared with 20 per cent for schemes opened between

1986 and 1991.

In many cases, high vacancy

rates in schemes that opened after

1989 cannot be blamed on the sharp

decline in vacancy rates. "In a

significant number of cases, letting

problems result more from scheme

deficiencies," it says. Flaws

included poor scheme design,

inadequate anchoring, insufficient

critical mass and an inappropriate

site size.

Vacancy rates are highest in

southern England, reflecting a

build-up of supply and the

subsequent decline in demand since

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TOTAL RETURN (%)

	Retail	Office	Industrial	All Properties
Year to Sep 92	6.2	-6.0	3.1	0.9
Quarter to Sep 92	0.2	-2.1	-0.7	-0.8
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ARTS

Concert
Grieg's
'Peer
Gynt'

Most music-lovers know that Grieg's famous *Peer Gynt* Suites were drawn from the theatre-score he composed for the first production of Ibsen's epic, at the playwright's express request. From time to time we hear more of the music, when some orchestra takes the trouble to collect suitable singers, and an actor or two to narrate and to speak some lines when a musical fragment needs them.

But such performances have always relied upon a posthumous edition published in 1908, when some parts of the score had already gone missing. Only in 1986 was everything found and reinstated in the right order, thanks to the doctoral labours of Eino J. Andersen. Though Neeme Järvi and the Gothenburg Symphony recorded the complete score the next year, it seems that their Barbican performance of it on Wednesday was the first before a live audience since the original staging in Christiania (now Oslo).

It was done in style. Peer Gynt has just one serenade, evidently written not to overstretch a leading actor who does not sing much, and his Solvieg two pretty songs, but the excellent Hakan Hagegard and Barbara Bonney were imported to sing them. Laurance Koenig had devised an ingenious English text, often in rhyme like Ibsen's, and ample enough to establish some characters and the gist of the story.

Gerard Murphy and Simon Callow enjoyed themselves hugely as Narrator (plus Boys and Button-Moulder) and the speaking Peer – despite Callow's erratic grip on his words: at one point he addressed his desert princess not as "Lily of the sand", but "of the Strand"! – with ripe support from Susan Engel and Joanne Pearce. Probably this version stretched out longer than originally foreseen, for the announced Bartók Concerto was quietly scrapped; but this *Peer* filled up the time very pleasantly.

The Gothenburg orchestra is clearly first-class and Järvi's spontaneous dramatic instincts were exactly what was needed to keep the score sharp. The lesser among its 28 numbers are, after all, fairly routine sketches of theatricalism. On the other hand, to hear all the bits to be struck by Grieg's personal way with harmony, consistently gentle but also piquant, and his fine ear for instrumental colour without tricks.

It was particularly rewarding to hear the choral passages restored. Though Grieg was careful not to demand too much of the voices, the arrival of their human timbre is always planned to telling effect. The Tallis Chamber Choir did more than justice to all their music, whether as trolls, bairns or decent churchgoers. The three herd-girls who lure Peer to a night of passion turned out to make a lusty Valkyrie-ish trio, and Dec-Shin Hwang sang a sultry desert princess.

David Murray

Sponsored by Skandinaviska Enskilda Banken London

Classic drama in Germany gets a revolutionary look

It is exactly three years since the Berlin Wall fell, and in the theatre the offstage drama is revolutionary. This month, a newly privatised Berliner Ensemble, once Brecht's Marxist bastion, is launched. The Rosa Luxemburg Volksbühne (People's Stage) reopens with a savage satire against the Bolsheviks. And the jewel in east Berlin's dramatic crown, Max Reinhardt's Deutsches Theater, is finding 80 per cent of its audience from the west.

What is left of the theatrical traditions of East Germany's proudest cultural achievement? Theatres in the DDR used to be cheap, full, and politically alert. The structure and the audiences may have changed, but the surprise is that the style survives. Drive blindfold in and out of the Brandenburg Gate, pick any Berlin stage, and from gesture, accent, overall mix of dramatic ingredients, you will still tell an east German production at once. Some of the boldest, most inspiring shows across the country now come out of east Berlin.

At the Deutsches Theater, Thomas Langhoff's version of Hofmannsthal's *The Tower* is a model of a classic given a new lease of life. *The Tower*, written by an ageing author lamenting the collapse of Vienna, has an unhappy stage history – it opened in 1928 simultaneously in Munich and Hamburg but with opposite endings, because Hofmannsthal could not make up his mind – and on the page it seems incredible that this lumbering relic of palmy Habsburg days was a contemporary of Brecht's *Threepenny Opera*, which opened in Berlin the same year.

Yet Langhoff, via a dash of Brecht, has turned the play into a comic commentary on our times. The

story, adapted from Calderón, is a parable of changing regimes. It tells of Prince Sigismund, who is imprisoned in a tower because an oracle foretold he would cause his father's downfall and, taken to court for a day, turns out as murderous as predicted. But he is in fact anti-Machiavellian, a spiritual leader used by plotters, then sacrificed for a people's king, Corporal Oliver.

Langhoff uses it as cartoon strip of coup and counter-coup where palace plots, revolt against the *ancien régime*, new totalitarian ruler etc.

Jackie Wulschläger
finds that the boldest, most inspiring shows come out of east Berlin

strike chords with Germany's current upheavals. Jorg Gudzuhn plays the King as Clown, a fop in furs and feathers who rolls his "r's" like Chaplin doing Hitler, haggles over his pension, throws tantrums. Gudzuhn, with his elastic face, shaking limbs and floridly grand gestures, streaks slapstick with tragedy: from mad Habesburg to Honecker, he is every ruler on the way out. In a climactic fight with his son, he gets a bloody red nose – a literal clown who has lost power and love.

Langhoff underlines Oedipal hatreds with a comic vision of the Doctor (Reinmar Bauer) as an Identikit Freud, bearded, spectacled and anxious, sent to analyse the wild beast that the court fence has become. For his visit, the huge black tower-prison commanding the stage

reverses into a tall white lab with fluorescent lights and doors and furniture distorted into high, long, unnerving shapes.

It is one of many brilliant clashes of mood with which Langhoff paints conflict. Another has grey advisors giggling against the chime of church bells as the king goes mad in a monastic rose garden: spiritual ecstasy versus worldy disaster. Sigismund, metamorphosed from wild child to courtier to martyr in breathless, blood-and-sweat star turns from Daniel Morgenroth, is sacrificed like the tower in a chess game, in a last metaphor of changing values and the downfall of ideologies. Oliver (Frank Lehert), the commissar in boots and steel-rimmed glasses, pushes his double forward onto a balcony and the power puppet is acclaimed by the masses.

Langhoff uses Brechtian devices –

–

Kinghood must be ridiculous, for example – but each character is so finely delineated that individual emotions are rarely subsumed in big ideas.

But at the Rosa Luxemburg Volksbühne Frank Castorf directs a *King Lear* which is just the reverse. At first its craziness compels. Castorf has the obligatory absurd king (Wilkfried Orthmann), a bumbling pensioner so down-and-out that even his shoelaces are rotten. His three daughters are charlatans, cleaning the stage with silver buckets. The abandoned Cordelia (Annette Kuschke) does not cry but pisses into her; her husband marries her with her trousers still down and drinks the contents of the bucket.

This proletarian *Lear* turns the disintegrating state into an everyday farce, its reality, perhaps, for the man in the street who finds the shops empty and the tram too expensive. It is set to show vintage Brecht productions on the subject, *Galileo* and *The Good Woman of Setzuan*, until the premieres of its new directors in January. The highlight of the recent Brandenburg Theatre Festival in Berlin was a Potsdam production, *The Small Pogrom at the Station Buffet*, about uprisings against a small town Jewish couple. It was sparked by Jewish mourners in Brandenburg overhearing the disapproving mutter "It wouldn't have happened under Honecker".

If you enjoy political satire, this is a show to catch. But it is not Shakespeare, it is absolutely lacking in emotion, in the sense of characters as individuals, and in the subtlety and generosity of spirit which makes contemporary reworkings of Shakespeare come alive.

The Tower and *Lear* are both about individuals caught up in revolutionary times, and this is the dominant theme across east Berlin stages. The Berliner Ensemble con-



Comic commentary on our times: Jorg Gudzuhn in Langhoff's version of 'The Tower'

sive. It is set on shifting planks of wood whence courtiers fall off the edge into ditches of water. No one knows where he is going: a country adrift without purpose. Lear is not even sure which tragedy he is in: once he calls Cordelia "Ophelia"; a fat cabbage, backed up with a hammer, points the blame: the German for cabbage is "Kohl".

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a ramp which goes straight through the auditorium and a cast of citizens who find themselves in a city not of justice but of nightmarish machinery ordering every aspect of their lives.

This is a loud, dark, violent show, the jokes about soldiers wanting to "get to Russia" – a cause of special mirth here – as insistent as the drumbeat from the foyer which carries even to the nearest U-bahn station. It is a claustrophobic, heady experience, but like the other shows here unlike drama anywhere else in Germany.

The *Tower* is in repertory at the Deutsches Theater; *King Lear* and *City of Justice* in repertory at the Volksbühne am Rosa Luxemburg Platz.

Theatre

Stages

The old firm of David Storey the writer, Alan Bates the actor and Lindsay Anderson the director is back with Storey's new play, *Stages* at the Cottesloe in the National Theatre. The firm has not matured with age. Indeed if you want a throwback to the 1960s here it is. Outside of parody, it is hard to imagine such a mixture of the worst of Harold Pinter, more than a touch of John Osborne, a nod to John Braine's *Room at the Top* and an acknowledgement of Philip Larkin for writing verse about the north of England. The victim is Bates, who remains a powerful actor but can hardly be expected to carry a text like this.

The point about Storey – it is always said, not least by himself – is that he was born north-country boy, preferred art and literature to a more humdrum life, and played professional rugby league in order to support his studies. Thus the heartless regarded him as an aesthete, and the aesthetes regarded him as a heart.

Stages is the story retold, plus women. There are a lot of them about. Fenchurch, the central character, has a daughter called Karen, an ex-wife called Bea, a psychiatric adviser called Marion, and a glamorous-looking woman called Rebecca who appears to be his neighbour but is treated as a surrogate for all his longings. The main woman in the Fenchurch saga, however, does not appear. She is Bea's mother, for whom he fell before he married the daughter and with whom he continued an affair long after.

The play contains one interesting line about why it is that some of us go mad and others do not. No answer is given; nor is there much of an attempt to find one. Fenchurch's dilemma seems to be whether he should go back to the north, from which he and much of the 1960s drama came, or stay in the south which he first welcomed for its anonymity. It is pointed out in passing that the north



Alan Bates

has changed over the years; i.e., has become more like the south. Fenchurch stays put.

Bates copes manfully, looking as ever the blend of ex-rugby forward and sensitive soul. The part is in many ways reminiscent of the middle-aged Jimmy Porter in Osborne's *Look Back in Anger*, though without the drink and without the fall of Osborne's Cliff. It is also without the jokes.

Pinterish pauses abound, never more so than in the first scene with the daughter who reminds Fenchurch that nowadays the north is only a few hours away from King's Cross. None of the women's parts add up to much. They scarcely ever answer back, which is strange when, with the possible exception of the neighbour, all are supposed to be well-educated intellectuals. Joanna David's Marion must be the most inarticulate professor of psychiatry ever. Rosemary Martin as the neighbour is more a figure of the imagination than a character.

The set, designed by Jocelyn Herbert looks as if it has been taken from recent productions of Pinter: pretty well bare, but with the occasional use of see-through gauze doors. It is Pinter without the menace.

Malcolm Rutherford

Cottesloe Theatre (071) 923 2252

starring Robert Lindsay (opens Dec 5, previews from Mon), and Terence Rattigan's *The Deep Blue Sea*, with Penelope Wilton as Hester (opens Jan 7 at the Almeida).

Treasures of the Wells, Arthur Wing Pinero's 1898 play about backstage romance among the acting fraternity of late Victorian London, returns in two distinctive productions: the first, directed by Toby Robertson, opens at the Comedy Theatre on December 7, with a cast led by Helen Bonham-Carter and Sarah Brightman; the National Theatre follows in February with a production of the Olivier directed by John Caird. The National's main Christmas offering is *Carousel*, the Rodgers and Hammerstein musical directed by Nicholas Hytner (opens Dec 10, previews from Dec 1).

EXHIBITIONS GUIDE

AMSTERDAM

Van Gogh Museum Glasgow 1900: more than 100 objects providing a survey of art and design at a period when Glasgow was the UK's second city and sixth in Europe in terms of trade. Exhibits from the Glasgow School of Painting – a mixture of Scottish tradition with European influences – stand alongside works by French and Dutch contemporaries, including Corot, Cézanne and Milliet, which were collected by successful businessmen. The designs of Charles Rennie

Mackintosh are also represented. Ends Feb 7. Daily Rijksmuseum Chiaroscuro Woodcuts by Hendrick Goltzius (1558-1617), highlighting a less well-known facet of the great Dutch draughtsman and engraver. Ends Jan 10. Closed Mon.

Stedelijk Museum Jeff Koons (b1955): first retrospective devoted to the American artist who uses mass-produced objects to provide a mirror of the trivial culture surrounding us. Ends Jan 3. Daily BALTIMORE

Museum of Art Icons of Modernism from the Museum of Modern Art, New York: works by Van Gogh, Picasso, Cézanne, Chagall, Hopper and others. Ends Jan 17. Closed Mon and Tues.

Walters Art Gallery Ottocento: Romanticism and Revolution in 19th century Italian paintings. More than 100 paintings reflecting the tensions and conflicts that arose out of Italy's struggle for unification. Ends Jan 2. Closed Mon.

FRANKFURT

Schirn Kunsthalle Gabriele Münter (1877-1962): retrospective of the painter who was influenced by the Fauves, lived and worked with Kandinsky and ranks as one of the foremost female artists in early 20th century Germany. Ends Feb 10. Daily LAUSANNE

Musée Cantonal des Beaux-Arts

Felix Vallotton (1865-1925): retrospective of the Swiss

Post-impressionist who joined the Nabis. Closed Mon. **Catalan artist and poet** Ends Jan 10. Daily **Tate Gallery** Grand Manner Portraiture in Britain from Van Dyck to Augustus John. Ends Jan 10. Also *The Painted Nude*. Ends Feb 27. Daily **NEW YORK** Museum of Modern Art Matisse. Ends Jan 12. Closed Mon (Admission is by timed-entry tickets. Call Ticketmaster 212-374-5454)

Metropolitan Museum of Art The Royal Academy of Arts Sicker: a major exhibition marking the 50th anniversary of the death of one of the most European of English painters, with 134 works from collections worldwide. Throughout his life Sicker sought to overturn the decorous gentility and good taste which he thought bedevilled English art, and his increasing social and psychological realism, as in nudes like La Hollandaise, shocked and dismayed his public. Ends Feb 14. Also *Sacred Art of Tibet*. Ends Dec 13. Daily **National Gallery** Munch: The Frieze of Life. Advance booking through First Call 071-497 9877. Ends Feb 7. Daily **PARIS**

Barbican Border Crossings: 14 Scandinavian Artists. Ends Dec 15. Daily **Design Museum** Scandinavian design in Britain 1930-70. Also New Directions in Scandinavian Design. Ends Feb 28. Closed Mon.

Riverside Studios Joan Brossa (b1919): retrospective of the

Catalan artist and poet. Ends Jan 10. Daily **Tate** **Gallery** Grand Manner Portraiture in Britain from Van Dyck to Augustus John. Ends Jan 10. Also *The Painted Nude*. Ends Feb 27. Daily **NEW YORK** Museum of Modern Art Matisse. Ends Jan 12. Closed Mon (Admission is by timed-entry tickets. Call Ticketmaster 212-374-5454)

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Grand Palais Picasso et les Choses. Ends Dec 28. Closed Tues, late opening Wed (ave du General Eisenhower)

Musée d'Orsay Sisley: 60 paintings illustrating his role in the Impressionist movement. Ends Jan 31. Closed Mon, late opening Thurs (quai Anatole France)

Musée Picasso Crucifixion: an exhibition including Picasso's masterpiece of 1930 and works by Bacon, Sutherland and de Kooning which were influenced by it. Ends March 1. Closed Tues **Galerie Didier** Imbert Fernando Botero: pastels, drawings, watercolours and small sculptures by the artist whose monumental sculptures currently decorate the Champs Elysées. Ends Jan 30. Closed Sun and Mon (ave Matignon). Louvre Pannini (1691-1765), painter of town perspectives and chronicler of ceremonial festivities. Ends Feb 15. Also Drawings by Liotard (1702-89). Ends Dec 14. Closed Tues (Pavillon de Flore) **Petit Palais** French 18th century drawings. Ends Feb 14. Closed Mon (ave Winston Churchill) **STOCKHOLM** Moderna Museet Léger and the Nordic countries: 80 works by the French Cubist from the period 1914-38, when he travelled widely in Scandinavia. Ends Jan 6. Closed Mon **VIENNA** **Kunsthistorisches Museum** The Portuguese in India: the conquests of Dom João de Castro on tapestries. Ends Jan 10. Closed Mon **WASHINGTON** **National Gallery of Art** The Greek Miracle: Classical Sculpture from the Fifth Century BC, 22 pieces, most of which have never previously left Greek soil, plus eleven from Europe's leading museums. Ends Feb 7. Also Ellsworth Kelly (b1923): 40 paintings dating from his early years in France. Ends Jan 24. Art of the American Indian Frontier. Ends Jan 24. Daily

incorporated masonic ideas into Catholic church buildings. Ends Jan 10. Also Pictures of Death: documents, keepsakes, death masks, paintings and sculptures showing how our relationship with death and the taboos surrounding it have changed over the years, and how past and present artists have depicted death and grief. Ends Jan 10. Closed Mon **Oesterreichische Galerie im Oberen Belvedere** Ferdinand Hodler (1853-1918): 60 oil paintings by the unsentimental Swiss master of symbolic figures, who overcame the romantic kitsch in 19th century landscape art. Ends Jan 6. Closed Mon (Prinz Eugen Strasse 27) **KunstHaus** Expressionists: watercolours and drawings by the Brücke, the school of painters who paved the way for expressionism in Germany. Ends Jan 31. Daily **Kunsthistorisches Museum** The Portuguese in India: the conquests of Dom João de Castro on tapestries. Ends Jan 10. Closed Mon **NOTICES**

Peter Shaffer's new play, *The Gifts of the Gorgon*, receives its world premiere in London on December 16 (previews from Dec 2), in a Royal Shakespeare Company production directed by Peter Hall at the Pit. The cast is headed by Judi Dench and Michael Pennington. The play – a story of passionate love, achievement and entanglement between a turbulent writer and his wife – tackles the themes of revenge and justice.

A second highlight of the RSC's London programme next month is a new production of Hamlet starring Kenneth Branagh, directed by Adrian Noble. The production, sponsored by Unilever, opens at the Barbican on December 18 (previews from Dec 12), and will transfer to Stratford for the 1993 season.

Other first nights in London in coming weeks include a John Wells adaptation of Cyrano de Bergerac at the Haymarket, the designs of Charles Rennie

FINANCIAL TIMES

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Friday November 20 1992

Co-ordination within Europe

ECONOMIC GROWTH. or more precisely the lack of it, has replaced inflation as the pressing concern of most European governments. The UK government has already shifted to a pro-growth strategy by partly turning its back on European co-operation. Is this the only alternative for governments that are worried about slow growth and rising unemployment? Or would a change in policies, either co-ordinated between governments or conducted at the European level, be a better way to revive their stagnating economies?

European countries have shared economic problems, which are getting worse. The OECD, in September, forecast European growth of 1 per cent this year and 1.5 per cent next, too little enough to be a recession but too little to prevent the unemployment rate from rising above 10 per cent. The resulting protectionism and anti-immigrant right-wing populism could not have come at a worse time.

Understandably, the Commission wants a co-ordinated response. Yet the EC already has a shared macroeconomic policy which is largely to blame for its current economic difficulties. The European exchange rate mechanism, once a force for differentiation, has become an engine of deflation. It has imposed a tight monetary policy which, however appropriate for Germany, has proved increasingly inappropriate for the rest of the ERM, as the Bank of England pointed out in yesterday's Bulletin. Both the UK and Italy, countries with serious internal problems, found the pressure too great and were forced to depart from the ERM. Yesterday, Sweden was forced to retreat from its ERM link.

Monetary response

A co-ordinated loosening of monetary policy is the obvious remedy for this co-ordinated deflation. Yet the persistence of inflationary pressures in Germany, and the unwillingness of France to contemplate a general realignment, look likely to prevent German and thus ERM interest rates from falling more than modestly for months rather than weeks.

Does fiscal policy offer an alternative? Loose fiscal policy is, in fact, the route that most slow-growing countries have already been forced to take. The Commis-

sion estimated that the EC budget deficit has risen from 2.8 per cent of EC output in 1989 to 5 per cent this year, larger than the fabled US deficit. If the Maastricht fiscal rules were suspended, then there would be room for more fiscal pump-priming. The large European economies, including the UK, are still sufficiently closed that unilateral expansion would have some positive effect. A co-ordinated expansion could, in the long run, have beneficial spill-over effects across the community and beyond.

Multilateral solution

Yet it is doubtful whether fiscal policy can do the trick and may well be counter-productive in the face of a persistently tight monetary policy. The spill-over effects of Germany's sizeable fiscal expansion following unification were short-lived and, for most countries, more than outweighed by high interest rates. In any case, Italy, Germany, the UK and Spain are already in serious fiscal difficulties. The markets might expect a further boost in these countries to be permanent and force long-term interest rates higher.

Nor are Mr Delors' proposals for more spending at an EC level anything more than a frustrated gesture. He may be right to push for more infrastructure spending in poorer countries for "cohesion" purposes, and if this is his intention he should say so. But an Ecu 5bn increase in spending, just 0.09 per cent of EC GDP, is too small and would arrive far too late to have any effect on overall economic growth.

The EC's situation looks increasingly perverse. Calls for a co-ordinated fiscal policy, which would in effect mean little more than a rise in the French budget deficit, have arisen because the EC already has too much of the wrong kind of co-ordination. The stranglehold of high German interest rates must be loosened.

Without a deal that allows European interest rates to fall soon, the markets may yet impose further British or Swedish-style unilateral solutions. But a fiscal boost in France might work if it were combined with an offsetting tightening of German fiscal policy, to allow the Bundesbank to cut German interest rates. This would be co-ordination worth having.

Cars, congestion and pollution

THE AUTUMN Statement's removal of car tax may help sell a few more cars, but it also emphasises the contradictions between the UK's transport and environmental policies. More cars mean both more congestion and more pollution. The question is whether the two birds can be killed with one policy stone or whether different instruments are required.

Official forecasts of UK emissions of carbon dioxide, one of the gases thought to cause global warming, range from an 18 to a 78 per cent increase over 1990 levels by 2020, at least in the absence of new environmental curbs. If present trends are extrapolated, the volume of traffic on the roads will also rise by two and a half times in the next 30 years. These developments are related, since emissions from transport are the fastest growing category in all forecasts.

Traffic was already mainly responsible for the 30 per cent rise in carbon monoxide emissions during the 1980s. Traffic also doubled the emissions of black smoke over the same period. The introduction of catalytic converters on new cars from next year will begin to curb the emission of those unpleasant gases. But converters work properly only on hot engines, while most car journeys are shorter than five miles. Converters will also fail to reduce emissions of carbon dioxide. Failure to change the transport trend therefore threatens the UK's ability to meet internationally agreed environmental targets, which require "greenhouse gases" to be back to 1990 levels by 2000.

Marginal cost

Growth in the private use of motor vehicles is so high partly because of the underlying increase in demand, partly because of unwillingness to provide alternatives and partly because of the failure to charge properly for road use. Once a motorist has paid for a car, taxed and insured it, the marginal cost of driving is little more than the price of the fuel and the parking. In consequence people drive too much.

The UK government's most publicised proposal for meeting the global warming targets is a tax on energy and on its carbon content. But the European Commission has

First, public demonstrations against pit closures; then, warnings of strike over the government's public-sector pay squeeze; and now a strike call for most of the workers on London's Tube network.

The language and the issues seem a throw-back to the 1970s as politics takes to the streets, and the government "goes for growth" and talks about imposing a "pay policy". Mr John Monks, the deputy general-secretary of the Trades Union Congress, claims: "There is a mood similar to 1979, the feeling that a particular approach to running the economy has failed and that we need a change."

But with unemployment nudging 3m, common-sense suggests the balance of power is unlikely to shift back to unions. It is only weeks since the publication of figures showing strikes at a 100-year low, and the unions themselves are playing down the prospect of action over pay in the public sector. The Tube workers' threat to start an indefinite strike next Tuesday over pay and conditions, like yesterday's strike ballot by British Airways ground crew at Gatwick, seems to be a special case.

The 21,000-strong Underground workforce is highly unionised and tends to mistrust management. Many are inclined to listen to the few activists whose arguments are bolstered by past victories over less ambitious plans to alter their pay and conditions. The last such attempt was in 1989 when there were 17 separate day-long Tube

strikes. The current dispute, if it comes, could be bitter and perhaps violent. London Underground has made it clear that it will run a service if the RMT railworkers' union calls its members out, and claims enough people will cross picket lines to enable it to do so. Passengers will be carried free if there are insufficient employees to staff the booking offices and ticket barriers.

The origins of the dispute lie in a 119-page document called the Company Plan, launched with a fanfare almost exactly a year ago. This set the scene for a three-year programme of change aimed at turning the Underground into what it always should have been: a clean, efficient, punctual, reliable, safe and customer-friendly railway.

Passengers were told of the plan through a bold — some might say bizarre — advertising campaign in which London Underground accepted that the railway was performing unsatisfactorily, blamed itself, and promised better things.

What appeared baffling was how the Underground's management could accept responsibility for allowing services to become unsatisfactory while simultaneously expecting passengers to have any confidence in its ability to put things right. And in any event, if the problems with the railway were capable of resolution, why had they not been solved before?

The answer, explained Mr Denis Tunnicliffe, London Underground's managing director, lay in the railway's recent history. Throughout the 1970s and early 1980s, passenger numbers declined as employment in the capital fell, and there was little incentive either to invest in the Underground or manage it any better. Then, just as passenger numbers started to climb again during the boom in London's financial services industry in the mid-1980s, the King's Cross disaster struck in 1987.

Some 31 people died in the horrific fire that swept through the north London Underground station, calculated that its proposed tax of \$10 a barrel of oil or oil equivalent would add only 6 per cent to the price of a gallon of petrol and 9.6 per cent to diesel, not enough to make any difference to demand.

A far higher increase in the marginal cost would be needed if traffic volumes were to be restrained. The simplest tool would be a higher tax on fuel. It would be an unpopular measure, but introduced in stages — with the proceeds returned, perhaps through lower value added tax — it might be politically achievable. It would work by discouraging driving and also by making the vehicle fleet more fuel efficient.

Blunt instrument

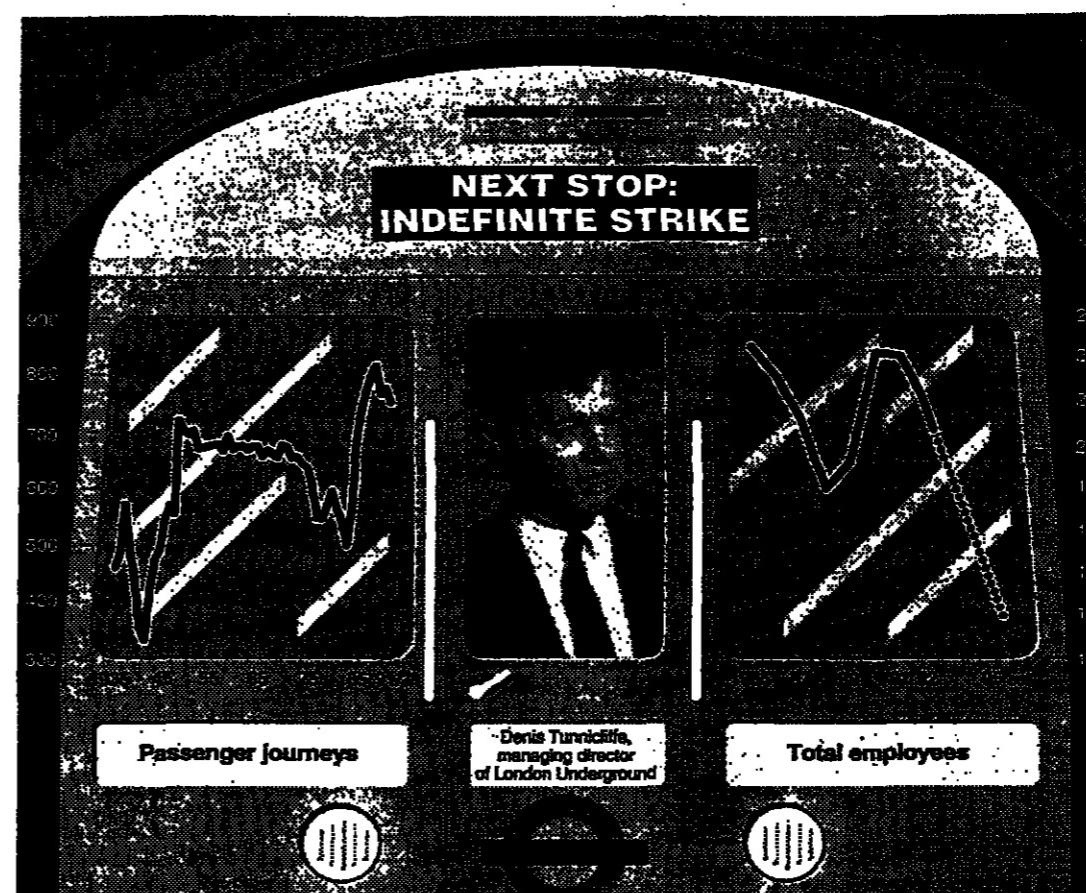
Higher taxes on fuel would tend to lower congestion. But they are a blunt instrument for that purpose. Higher fuel taxes would also fail to provide any incentive to the private sector to build the new toll roads that the government desires. Thus road pricing, suggested this week by Mr John MacGregor, the transport secretary, has an important role to play.

Road pricing and higher fuel prices are logically distinct instruments addressed at different targets. But they should be mutually supporting. Moreover, in practice, comprehensive road pricing is not something for tomorrow or even for the day after, while a move towards higher fuel prices can be introduced relatively soon, along with trial road pricing in cities, before the introduction of more comprehensive road pricing schemes, perhaps early in the next century. In the meantime there is always the possibility of higher taxes on inner-city parking.

Any attempt to tackle the problems caused by motor vehicles will be politically unpopular. This is certainly true of higher fuel prices and road pricing, both of which are likely to be part of the solution. But a survey of attitudes in the European Community, published yesterday, suggests recognition by the average Briton of the environmental threat posed by traffic. The government needs to educate the public on the painful measures required if its vague concerns are to be dealt with effectively.

Underground staff are poised to stage a strike which has echoes of the 1970s, say Catherine Milton and Richard Tomkins

Ticket to delays and disruption



From that point onwards, safety became the overriding priority. Manpower, which until then had been falling, rose again by 3,000 over two years as employees were taken on to implement safety measures and act as human fire detectors pending the installation of electronic surveillance systems.

Meanwhile, stations deteriorated as what was started to rip out potentially inflammable materials, and services were constantly disrupted by the need to halt trains and call out the fire brigade on even the tiniest suspicion of fire.

Only in 1990 did London Underground reach the stage where it felt safety could be reasonably assured. Then, in response to the deafening din of complaints about the quality and reliability of the service, it turned its attention to efficiency. It assembled 200 managers into "value analysis" teams and sent them out across the railway to investigate how it could do better.

What the management had expected to find was a series of areas of underperformance that could be picked off one by one and targeted for improvement. Instead, it found such large swathes of poor performance right across the railway that it decided to tackle everything at once. Hence, the Company Plan.

One aspect of the plan is simply a case of doing obvious things to make the railway run better — for example, making more effort to get

train intervals right. As London Underground points out, it may not sound particularly serious if trains due to run at two-minute intervals run at intervals of one and three minutes instead. But the result is that 75 per cent of passengers experience 50 per cent higher passenger loadings than they should do.

The solution, according to London Underground, lies in discipline and training. Much of it is simply a matter of making sure the train begins its journey at the right time instead of having to wait on the convenience of a driver finishing his tea-break. After that, it is down to the line controllers and station staff to prevent bunching.

But more important in the context of the current dispute is the other prong of the Company Plan: the onslaught on labour costs. It provides for the workforce to be cut by 5,000 to 16,000, partly by contracting out ancillary activities and partly through an attack on restrictive working practices.

One example of the cuts is the contracting-out of station cleaning, where this has not already been done, at a cost of more than 400 jobs. The move will be accompanied by the contracting out of train cleaning, with the loss of another 400 jobs.

More jobs will go through the

ending of restrictive working practices. For example, existing agreements lay down that a driver's shift lasts 8 hours 1 minute. In practice, it is almost impossible to create rosters which fully employ drivers and still get them back to their depots before their shift ends. The introduction of flexible rostering — accepted years ago by British Rail drivers — will enable London Underground to make more efficient use of drivers' time, with a consequent reduction of 600 jobs.

Once redundancy costs have been met, efficiency savings are expected to lower the Underground's operating costs by £150m a year by 1995.

In theory, passengers are supposed to feel the benefit through a freeing of resources for higher levels of investment in the railway. Unfortunately, that sentiment is looking a little hollow after the chancellor's decision last week to axe London Underground's investment budget by more than £200m a year below the previous plan to about £500m.

And yet, says London Underground, the rationale for the plan has in no way been undermined by the chancellor's decision. Nor will workers who keep their jobs necessarily be worse off. All employees will switch to salaried status, and most will have more interesting and satisfying jobs; 70 per cent of workers will enjoy pay rises averaging 6 per cent as a result of the changes, and the 30 per cent who stand to

take a cut will have their present level of earnings protected until 1995; and redundancies will be voluntary and spread over three years.

So why strike? One idea the unions find difficult to accept is that gains to the winners should overshadow losses to the losers. The average driver may see his salary increase from £20,250 to £22,000 a year, but less skilled workers such as senior booking clerks will see their pay fall from £18,568 to £16,700 a year.

The unions argue that London Underground's divide-and-rule strategy will not work. It has, they say, neglected certain small groups, such as some 300 signals technicians, who are mostly members of the largest rail union, the left-leaning RMT, which has called the strike. The salary of an assistant signals technician, for example, will drop 15 per cent to £13,440. The RMT says 60 per cent of all signals technicians will lose money under the company's plan. This group, the union says, fears its work will in future be contracted out.

But the dispute, from the union perspective, is not just about pay. The unions believe they are defending a workplace tradition of consultation which management wants to abandon. Even workers who stand to gain financially are exercised by the new conditions. The drivers are concerned about new redeployment rules under which they claim earnings could drop by as much as £2,000 a year after three years.

Many workers are upset about other planned changes, such as the move to multi-skilling. For instance, booking clerks who may have been dealing with passengers from behind screens for 30 years could find themselves rostered for platform duties.

There is also concern over ending the link between promotion and seniority and the move to make some workers re-apply for their jobs under new training schemes. The management counters by saying it has responsibility for promotion and deployment.

Privately, some union officials admit they have been surprised by the strength of members' feelings. However, they have considerable doubts about striking in a recession, and while they point to public support for the miners, they suspect that people are unlikely to demonstrate in support of Tube workers whose jobs were not immediately in jeopardy.

Despite their misgivings, union officials are committed to public backing for the strike. They remember the wild-cat action at the time of the 1989 dispute and are determined not to witness a repeat of it.

But the RMT's unilateral call for a strike has already irritated both Aslef, the train drivers' union, and the TSSA white-collar rail union, whose members are still balloting.

As for the passengers — what they want to know is whether they are going to get to work on Tuesday. The answer may well be yes. Although three out of four RMT members voted for the strike, only 55 per cent turned out for the vote; and many of them may have been seeking to strengthen their negotiators' hand rather than express a desire to strike, especially in the run-up to Christmas.

Disruption, on the other hand, seems inevitable, with all that implies in delays, cancellations, overcrowding, lack of information and short tempers. The joke among London commuters is whether anybody will notice the difference.

The pendulum swings

The privatisation of strategic UK industries and utilities may have its limits, argues Tony Jackson

Italy is selling its banks, France its chemical companies, Spain its tobacco monopoly, eastern Europe practically everything. Privatisation, from its tentative beginnings in the UK a decade ago, seems unstoppable.

Except, that is, in the UK itself. The mooted privatisation of British Rail is under fire from all points of the political compass. The idea of privatising Scottish water is supported by just 4 per cent of the Scottish population. The shamals of the pit closures has left the public asking whether the privatisation of gas and electricity has made it impossible for the UK to have a coherent energy policy.

The obvious question is whether the UK, having taken the lead in embracing privatisation, is doing the same in turning against it; or indeed, whether the UK is demonstrating to the rest of the world that privatisation has its natural limits.

In looking for an answer, it helps to recall what kind of enterprises are state-owned in the first place. In the UK, at any rate, the list falls into two main categories: so-called strategic industries, and utilities. The first has provided UK privatisation with its greatest successes. The second is its biggest headache.

The concept of the strategic industry has changed and weakened in the years since the second world war. Fighting a conventional war requires ships, aircraft, land transport and raw materials such as steel and oil. Even in peacetime, governments have tended historically to regard those industries as centrally important to the economy. In continental Europe, many still do.

Thus, if those industries required huge capital projects such as steel mills, North Sea rigs or petrochemical crackers, governments paid for them. If individual companies fell on hard times, the government took them over. In the UK, the result

were bound to cut their consumption. But the government could argue, with perfect logic, that it was powerless to intervene.

The trouble was that the public would not wear it. There was general astonishment and anger at the idea that the deployment of Britain's finite energy resources could not be discussed at governmental level. Since this had been one of the main ideological points of the exercise, the government was left dangling on a hook of its own devising.

The question now is whether this kind of debate will surface elsewhere. There are one or two signs that it may. In the US, even the outgoing Bush administration has devoted much time lately to discussing the infrastructure. In the UK, much of the hostility to privatising British Rail rests on the idea that it is government's job to think through the relationship between rail and road. At this rate, even such matters as the modernisation of the UK's telephone network could become issues of public policy.

If so, there is trouble ahead. In particular, the industry regulators — Ofel, Ofgas and the rest — are already looming large in the public consciousness. Their powers are only tolerable because they are specifically limited to questions of competition and efficiency. If responsibility for public policy were added on top, the already vexed question of who regulates the regulators would become clamorous.

Finding a solution would be equally difficult. From the regulatory framework downwards, the whole structure of the privatised utilities expresses the political dogma of a decade ago. It now seems the dogma may be changing. The structure is not built to change with it, nor was it meant to be. Privatisation enthusiasts everywhere, take note.

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</div

How the French fought to save the franc

William Dawkins and David Buchan tell the tale of how the government's financial team managed to thwart the markets

A few yards beneath the helipad on the roof of the high-tech structure that houses the French finance ministry is the office of Mr Thierry Aulagnon, chief adviser to the minister.

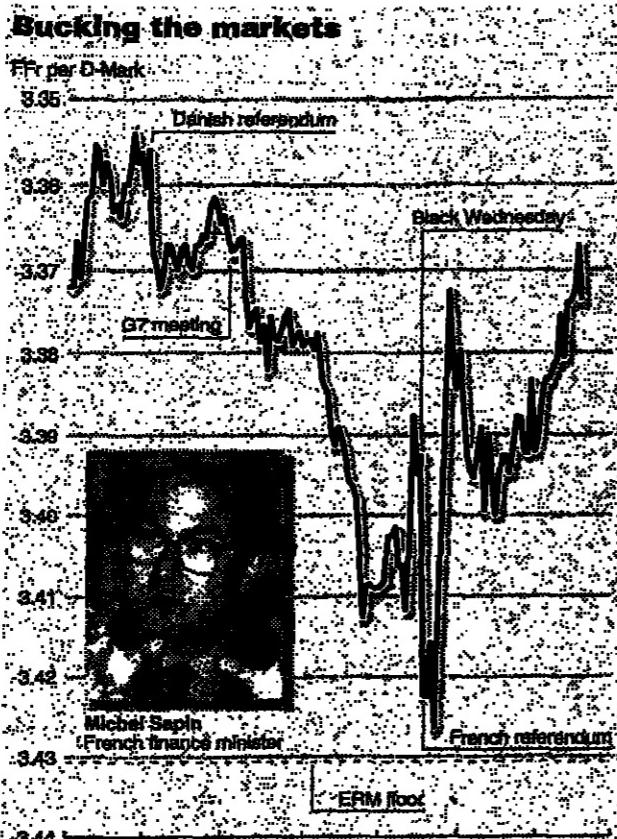
Mr Aulagnon, one of the brightest financial brains in the French administration, is at his computer screen, gloomily watching the value of the franc, stuck near the bottom of its permitted rate in the European Monetary System (EMS). The screen tells him that the franc is continuing to fall under the heaviest speculation on record, despite the large sum being spent on intervention by the Bank of France.

It is late afternoon on Tuesday, September 22, two days after France's narrow vote in favour of European monetary and political union. Mr Aulagnon is aware that failure to turn back the speculators would be a disaster for an already weak government.

Every 15 minutes, the Bank of France telephones to tell Mr Aulagnon that it has bought another billion francs or so of its own currency in an attempt to thwart the speculators. As dealing rooms across the world continue to bet on a devaluation, the screen beeps intermittently, breaking the calm in Mr Aulagnon's carpeted office. "It was my worst moment," he recalls. By the end of the seven-day crisis on September 23, the French central bank had bought FF160bn (£19.6bn), its biggest-ever intervention.

That Tuesday afternoon, Mr Aulagnon could not have felt more alone. His inexperienced young boss, Mr Michel Sapin, 40, who was promoted from junior justice minister to finance minister only last April, was closeted in a Washington hotel room with Mr Jacques de Larosière, governor of the Bank of France, and their German counterparts, Mr Theo Waigel and Mr Helmut Schlesinger. There, they negotiated the Franco-German support for the franc/D-Mark parity that in the end foiled the markets. Until then, Mr Sapin's best-known contribution to his country's finances had been his collection of antique coins.

Today, the French government is confident enough to tell the tale of how the battle for the franc was won. Mr Sapin and his team claim they never doubted that they would pull it off. "People told us that the market is always right. But we saw no reason why the franc deserved to be devalued, in terms of economic fundamentals. It was total determination, total – from the finance minister, to the prime minister and the president," says Mr Aulagnon.



'A shadow fell across the franc' from the moment of the Danish vote against the Maastricht treaty in early June

against the D-Mark.

The battle began in earnest at lunchtime on Thursday, September 17, the day after sterling and the lira were forced to leave the exchange rate mechanism of the EMS. Officials expected the franc to be next in the firing line, if only because nobody knew what the result of the referendum would be on the coming Sunday.

In afternoon dealings in Paris and morning trades in New York, the franc's previously gentle decline suddenly accelerated, until it hit

Italian experience," said Mr Aulagnon. Even so, Mr Sapin was worried enough to delay by a nearly a day his departure to Washington for a meeting with the other finance ministers of the Group of Seven leading industrialised nations.

Finally, on Friday evening, he left for the US with Mr Jean-Claude Trichet, director of the Treasury, and Mr de Larosière. Mr Aulagnon was left in charge of an emergency team in Paris. Over the Atlantic, the trio prepared plans for defending the franc in the

OBSERVER

Out of the frying pan

For all the warmth Norman Lamont's Autumn Statement has won him on the Tory backbenches, there are murmurs that he may still be on the slide. Indeed, some say the success itself will make it easier for him to accept a "digitized" transfer.

True, the chancellor will have none of it, telling friends he has a personal assurance from John Major that he's safe in the Treasury. But that has not stopped Westminster's favourite game.

One suggestion is that Lamont could be moved to Defence, still a big job in a Tory government. Malcolm Rifkind would be shifted to the Home Office and Kenneth Clarke would get the keys to 11 Downing Street.

But there are other challengers for the Treasury, among them John MacGregor at Transport. Right-wing Tory MPs – unsure of Major's intentions – have begun actively to promote the candidacies of Michael Howard at Environment, Peter Lilley at Social Security and Michael Portillo, the youthful but fast-rising chief secretary.

But there is general agreement that should the prime minister decide to shake up his team, he has only until the second weekend in January – that's when the chancellor hosts the traditional Chevening meeting, which signals the start of serious planning for the budget.

Ah so

The Japanese have a new word for the state of their economy: *sokobai*. But one place where you won't hear it spoken is Nippon Snyders immunological research centre

north of Tokyo – staff there must use the translation "crawling along the bottom".

The reason is that the pharmaceuticals group has banned the use of Japanese at the centre, making English its official language instead. "We're visited by researchers from all over the world," explains a spokesman, "and we want them to feel at home."

Inquest

Now more than ever, the founders of a company can't be too careful when choosing its name. Take for instance Penna, the title redundancy consultant Sanders and Shirley picked last year when renaming their quoted holding company.

Checking on what it had been up to lately, a colleague consulted the FT's computer database. Up came fund tales of suicides, fire deaths and drug overdoses.

The inquest shows that a certain totally unrelated Colin Penna is a coroner in north-east England.

Newcastle bound

Sunderland on the River Wear, has long been engaged in rivalry with neighbouring Tyneside. The dispute has normally centred on football but now Weariders have a new reason to feel a little sore about their rivals on the Tyne.

Nissan's announcement yesterday that it is moving the export of its Sunderland-made Primeras and Micras from Teesside to the Port of Tyne, rather than the port of Sunderland, is a matter of some regret for Weariders, but not entirely unexpected.

Much more wounding is the realisation that this means Nissan's newest car-carrying ship, named City of



"He's bottom of the class at the bottom of the league"

Sunderland only this month in honour of the city where Nissan's UK car plant is based, will from 1994 be playing in and out of the Tyne, bearing Sunderland-made cars.

Nissan, however, is aware of Weariders' sensitivities about the neighbouring Geordies. "It won't go to the Port of Tyne before it's visited Sunderland on its maiden voyage," promises a Nissan spokesman.

Revving up

"An ace in the Avocato's new hand of poker" was how one Italian paper described Giorgio Garuzzo after this week's management shake-up at Fiat.

The "Avocato" is, of course, Gianni Agnelli, the grand old man of Italian business who steps down from the Fiat presidency in 1994.

Aside from naming his brother Umberto as his successor, the Avocato has kept everyone guessing as to the future shape of the management team. By being

given the new post of chief operating officer with control over all industrial operation, the 54-year-old Garuzzo has been fingered as the man most likely to take over as chief executive officer from Cesare Romiti.

At 59, Romiti is two years younger than his boss but is expected to leave either with him or before him. Umberto Agnelli at 57 is of a different generation and is personally closer to Garuzzo.

With Fiat since 1976, Garuzzo's career conforms to the classical image of a modern industrial manager in northern Italy. In 1984 he was chosen to run Iveco, the commercial vehicles group.

He joined the "monoliths" in 1980 when he was promoted to be president of Fiat Auto, replacing Umberto Agnelli.

Bah that

The real name of Sia Song, the dapper 35-year-old speculator at the centre of this week's turmoil on the Thailand stock market, is Song Watcharasit. Sia is a nickname meaning "tycoon", as he reminded everyone by publicly producing \$10m (£6.6m) in cash for his ball.

It was twice as much as required.

Tailpiece

True to the spirit of Premier Major's citizen's charter, the National Canine Defence League has produced an equivalent spelling out the rights of dogs.

All travellers reading it will see its provisions are more in line with what actually happens than British Rail's charter for passengers. One of the booms it bestows on the animals is the right to be neutered.

Letters to the editor

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution.

Impulse for recovery programme

From Sir Arthur Knight.

Sir, I read with a mixture of interest, frustration and total amazement your article ("Major will urge business to seize opportunities", November 16) regarding the direct appeal made by John Major to business to seize the opportunities on offer, as the government steps up its efforts to create economic confidence" in his speech at the Lord Mayor's Banquet.

The object of the approach would be to offer a substantial cash sum (to be provided by the Japanese) in exchange for the return to Japan of the Kurile Islands; firm undertakings (endorsed by the parliament) to act effectively to deal with fiscal and monetary problems; and to get on quickly with privatisation.

That might seem a good way to strengthen the prospects for the "joint recovery programme" of which Edward Mortimer writes (Foreign Affairs, November 18). Apart from political and security considerations, the early consideration of such a programme is surely justified by the impulse to growth which it could provide worldwide at a time when other prospects are lacking?

Arthur Knight,
Charlton End,
Singleton,
Nr Chichester,
West Sussex PO18 0HX

Frustrations face those ready to 'seize' business opportunities

From Ms M E A Blackburn.

Sir, I read with a mixture of interest, frustration and total amazement your article ("Major will urge business to seize opportunities", November 16) regarding the direct appeal made by John Major to business to seize the opportunities on offer, as the government steps up its efforts to create economic confidence" in his speech at the Lord Mayor's Banquet.

Our development would invest some £150,000, employ in excess of 20 full-time people and use the goods and services of local traders.

How is it possible to seize the opportunities on offer when the now privatised Welsh Water's published investment programme for 1990-95 does not include any improvements in this area and, as a consequence, the NRA has a moratorium for the whole of this period on any planning applications? The result is economic stagnation.

Anne Blackburn,
managing director,
Flock International,
Hallsides,
Chelford,
Knutsford, Cheshire

Growth of the independent financial adviser

From Mr Kevin McBrien.

Sir, Lex's view ("Tide against agents", November 15) that life company tied agents have caused the biggest headaches in the wake of the last Financial Service Act may well be true of smaller tied agents.

Independent financial advisers, however, have seen their business increase substantially and their market share go ahead from 32 per cent at end-June 1992.

These larger tied agents have not, as far as I am aware, warranted such criticism from the regulators.

I would also query Lex's statement that "the trend towards direct sales forces shows no signs of slowing". The market share I have before me shows direct sales and home services companies with

a combined share of 48 per cent in 1990 and a very similar 46 per cent at mid-1992 – an undoubtedly considerable contribution to the total market.

Independent financial advisers, however, have seen their business increase substantially and their market share go ahead from 32 per cent at end-June 1992.

These figures exclude executive and group pensions business for which there is little reliable data, but their inclusion would have emphasised the trend towards independent advice rather than diminished it.

Although my company deals exclusively through indepen-

Kenneth Clarke's message on Bosnian refugees must be reversed

From Ms Sarah Spencer.

Sir, What kind of statement does Kenneth Clarke think he is making to the rest of the world when he denies entry to Bosnian refugees stranded on the Slovenia border ("Future grows over Bosnian refugees", November 18); when he requires them to obtain visas, knowing that they cannot reach the towns where consular facilities are available? It can only be that Britain is uncharitable and illiberal, unwilling to shoulder its international responsibilities and share its peace and relative prosperity with those who are

manifestly less fortunate.

No wonder the foreign secretary feels that his authority on the world stage has been undermined.

Of more lasting damage, however, may be the message Mr Clarke is sending to the British people that Britain is for the British, that Bosnian refugees are undesirable, an unacceptable burden, outsiders who should not be allowed to share our way of life.

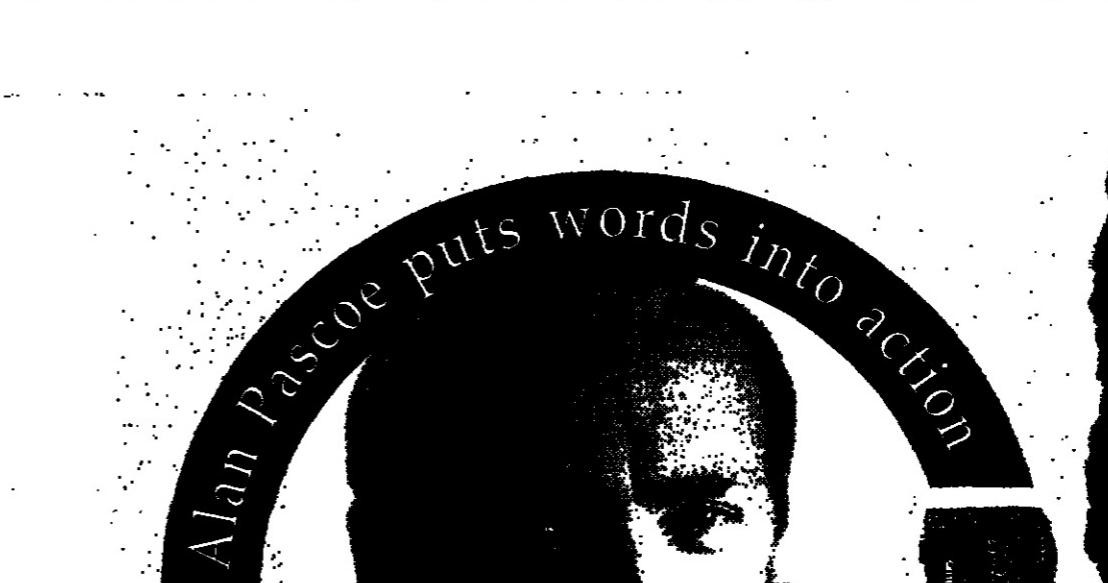
If Mr Clarke rests his closed door policy on fears of an anti-refugee backlash from the far right then he should be aware that he is playing into their

hands. He cannot counter their arguments by singing their song. The message he projects must be reversed: that refugees are not a burden but an asset. In the short term they need our help. In the long term, if they stay, they will contribute to the economic prosperity and cultural diversity of our nation as generations of refugees have done before. The German interior Ministry was belatedly launched a publicity programme of this kind. The Swedish government has for many years provided Swedes with positive information

about people who have moved to live in that country.

The extraordinary humanitarian efforts of agencies like Alert demonstrate a generosity of spirit from which Kenneth Clarke has much to learn. But opening the doors would not be enough. We must tell the British people not only that this is the right course of action for Britain to take but that both internationally and domestically, it is in our interests to do so.

Sarah Spencer,
Institute for Policy Research,
30-32 Southampton Street,
London WC2E 7EA



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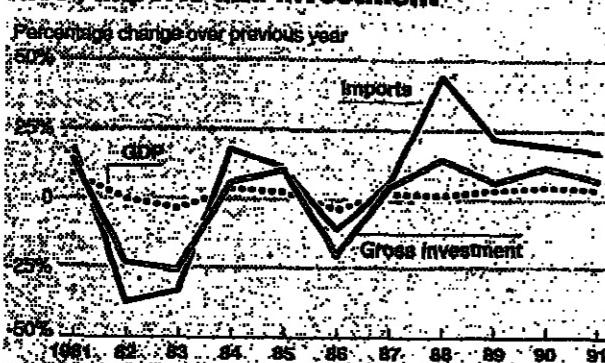
FINANCIAL TIMES SURVEY

MEXICO

Friday November 20 1992

SECTION III

GDP, imports and investment

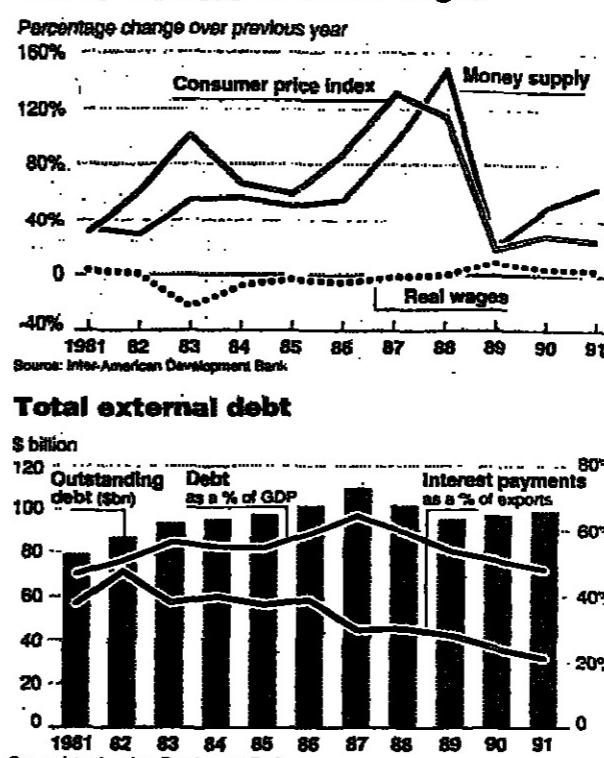


Capital account: non-monetary sector



President Salinas: his reforms have transformed an inward-looking economy into a market-responsive one

Money supply, prices and wages



IN THIS SURVEY

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Editorial production Gabriel Bouman
Graphics Bob Hutchison
Design Robin Coles

capacity of the economy to sustain significant per capita growth without sucking in unsustainable levels of imports. This year, to ensure a continued flow of finance into the country, the government was forced to push up interest rates, thereby slowing growth.

To many economists, the size of the deficit - equivalent to 6 per cent of GDP this year - strongly emphasised the need for further structural reform in the Mexican economy. While the government has continued to emphasise fiscal stringency - it is predicting another government surplus next year - this has not been sufficient by itself to make the economy competitive.

"The government has done well in public finances, and a good job, by and large, on privatisation, but on deregulating the economy there are a tremendous number of things still to be done," says Mr Jonathan Heath, chief economist at

Continued on Page 6

Long road to political reform

President Salinas wants a place in history for setting Mexico on the way to long-term growth. But the country is not yet a democracy, nor an industrial powerhouse, writes Stephen Fidler

ACCORDING to Mexican tradition, the power of a Mexican president begins to ebb in the fifth year of his six-year term. Often his popularity begins to weaken. In some cases the president makes a last-ditch desperate bid for popularity or for a place in history.

President Carlos Salinas, who underlined this month his government's commitment to fiscal austerity for the coming year, does not come across as someone likely to buy popularity for himself at the longer-term expense of the country. But he wants his place in history as the man whose bold reform programme set Mexico on the road to long-term growth. Building on the changes set in train by his predecessor, President Miguel de la Madrid, the Salinas economic reforms have changed Mexico from an inward-looking economy dominated by government subsidy to an open, more market-responsive one.

The reforms are widely viewed as a model for others.

Economic policy has been consistent, well-designed and well-executed. It has confronted difficult issues such as the reform of agriculture. Though highly conservative fiscally, the government says its policy has allowed it to increase social expenditures significantly.

Yet inevitably, because such things take time, the economy is still adjusting to the reform process, while the country's political system has yet to accommodate its implications. The glue that held the old corporatist system together has been irretrievably loosened, but there is no clear vision yet of what will replace it. Mexico is not yet a democracy; neither

is it a manufacturing powerhouse. Mexico may become both of these things, but the passage between where the country stands today and these two desirable objectives may be less than smooth.

This possibility has been brought home to the government over the last year on both the political and economic fronts. Mr Salinas has long given the impression that his vision of the way forward for Mexico's economy is clearer than his idea for the country's political future. But protests, led by the left of centre Party of Democratic Revolution, following elections for a handful of state governorships this

year, have pushed political reform to the front of his agenda.

The protests forced the resignations of governors from the ruling Institutional Revolutionary Party (PRI) after what is widely held to have been presidential intervention. From the government's point of view, the protests and resignations have had several undesirable consequences: they have weakened the credibility of the political system, weakened the PRI internally and increased dissatisfaction with Mr Salinas within the party, and they have provided the PRD with a way of gaining political influence without winning votes.

The government had already, in its earlier reforms, improved the electoral processes. The further reform that it plans to pass into law in the second quarter of next year will attempt to reduce the electoral bias in favour of the PRI that arises partly out of its ability heavily to outspend its opponents.

The opposition will agree to this, but Mr Salinas may be worried about again alienating the PRD. He says he wants further reform of the ruling party, but clearly he also wants to avoid so weakening it that there is a risk it might lose the 1994 presidential election.

"The PRI is in very bad shape and the problem is not

just cosmetic. The political system is not working for anybody any more," says Mr Rolando Cordera, a political analyst.

According to Mr Salinas, the process of reforming the PRI "hasn't finished and will have to go further". The party needed to produce political proposals and an ideology, so that people would know what it stood for. Internal restructuring of a 50-year-old organisation was necessary, the way the party financed itself had to be transformed; and there needed to be advances in the way candidates were chosen.

However, in spite of the party's internal strife, Mr Cordera believes the PRI candidate will

win the 1994 election. "The PRI is not ready or willing to lose the next presidential election and I think they are not going to lose it unless they face a very profound internal crisis," he argues. Mr Luis Alvarez, president of the National Action Party (PAN) agrees, if for different reasons: "If the process were truly democratic, we'd be able to win in 1994. But I think in 2000, it's a practical possibility."

On the economic front, a sharp rise in the current account deficit, caused in part by strong pent-up demand for imports after a decade of austerity, has provided a cause for government concern. It has raised questions about the

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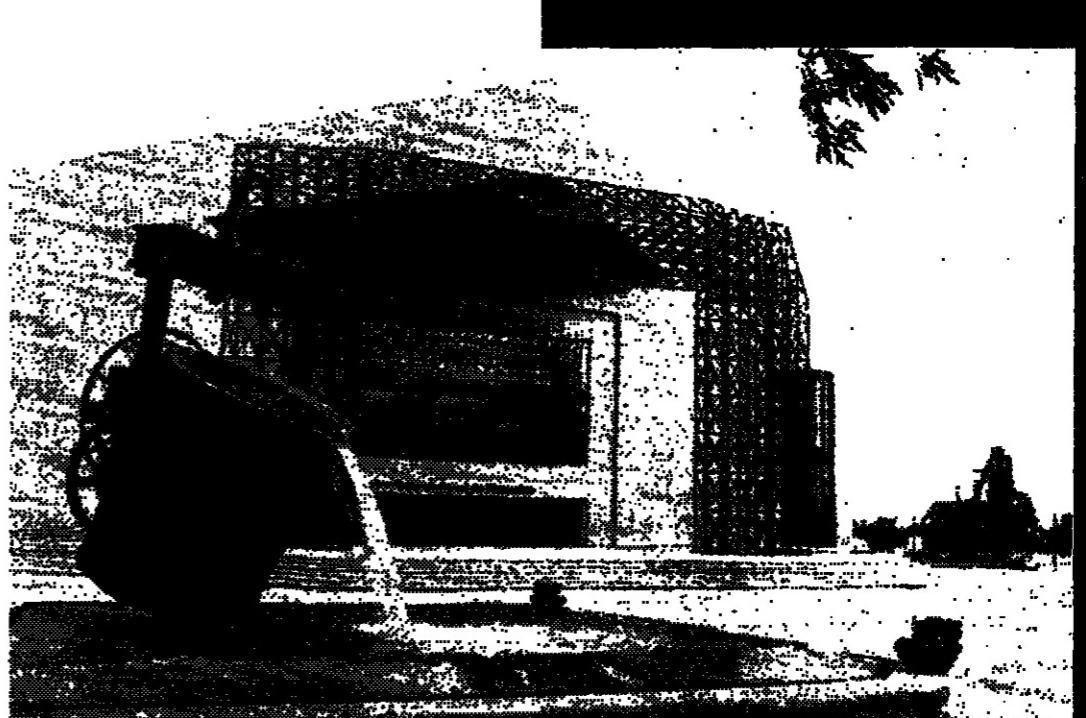
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Stephen Fidler says that 1993 will put the Salinas economic policies to the test

Deficit sends warning signal

THE COMING year will provide a severe test for the economic policies of the Salinas administration. With two years of the presidency of Mr Carlos Salinas left to run, the euphoria over Mexico's profound economic reforms has begun to abate. Economic growth has slowed and a more sober vision of the future has settled over financial markets and business.

The warning signal has been raised by a current account deficit significantly exceeding the government's earlier forecasts. Extraordinary measures - including deliberately contrived customs delays at the border - may keep the deficit this year just below \$20bn, at 6 per cent of gross domestic product, compared with \$13.3bn in 1991.

The government's arguments about why this should not matter are well rehearsed: its budget surplus means that the deficit is entirely a private sector phenomenon; that big inflows of capital are driving the current account deficit, not the other way round; and that much of the deficit is due to imports of capital goods which will eventually expand the economy's productive capacity.

While these arguments were largely accepted in 1991 as reserves expanded because of big capital inflows, the 1992 capital influx has appeared more uncertain.

"Last year, the government could argue that the current account was caused by big capital inflows. That doesn't explain why the current account deficit this year will be significantly higher than last year's, while capital inflows have been more hesitant," says Mr Jonathan Heath, head of Macro Asocios Económica, an economics forecasting group in Mexico City.

Some government officials now admit that the sustainability of the financing is an issue. In the end, the capital account surplus will by definition equal the current account deficit, adjusted for changes in reserves. But, given that a substantial portion of the capital inflows are short-term in nature, a sharp loss of confidence for whatever reason would trigger outflows of funds and risk economic dislocation until a new balance of payments equilibrium is found.

"The current account deficit is of concern to us because it is of concern to the financial markets," says one official. The government calmed one such

bout of financial uncertainty last month by a shift in exchange rate policy.

Over time, the new policy will widen the band of possible valuations of the peso against the US dollar. Prior to October, the maximum rate of daily devaluation had been 20 cents a day, an annual 2.3 per cent. The new policy doubled the maximum possible rate of devaluation, but left the ceiling

on the peso's value unchanged at 3.056 to the dollar.

The band of possible values for the peso will thus widen to just over 9 per cent if the same policy is in place by the end of next year, from about 3.5 per cent now.

The aim is partly to increase the uncertainty facing speculators, and to encourage them to invest in longer-term instruments.

The minimum fluctuation of the peso encouraged speculators to borrow at low interest rates in dollars to lend them at much higher rates in pesos.

A senior government official says that the new policy does not rule out the eventual possibility of moving to a fixed exchange rate. "This formula does not prohibit the fixing of the currency. The options are still open."

The change should ease concerns about the effect of an overvalued currency on Mexico's competitiveness, though it will not erase them. Mr Heath reckons it will halt the erosion of competitiveness: the maximum devaluation rate for the currency is just about equal to the difference between expected US inflation and his forecast for Mexico (7.6 per cent in 1993 against his expectation of 11.9 per cent this year). Productivity growth should then start to reduce the extent of the overvaluation.

If productivity is the key to future balance in the economy, then it is widely accepted that further deregulation is the key to expanding productivity.

Opinions about how far such further deregulation is necessary vary. Some economists, such as Mr Rogelio Ramírez de la O, who runs a corporate economic consultancy, believe it has to be drastic. "I don't think the supply side of the Mexican economy can support 4 per cent growth over a long period with sustainable current account deficits," he says.

The economy is thus doomed to stop-go policies unless the government buys time to improve the supply side by allowing the aggressive sale of domestic assets to foreign companies. To do this, it would

have to open up the still significant areas of the economy in which foreign investment is restricted.

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for example, in the country's labour laws which forbid a reduction in nominal wages unless there is a business emergency. "We have inflation inertia in Mexico: wage settlements have been too high for inflation to fall faster," says bank independent.

The government sees no such sharp dilemma, in part because of a belief that import growth will abate as the

The economy is doomed to stop-go policies unless the government buys time to improve the supply side by allowing the aggressive sale of domestic assets to foreign companies

pent-up demand that followed the debt-depressed 1980s eases.

They also believe that when the economy improves in the US, to which 70 per cent of Mexican exports are bound, so will Mexico's balance of payments.

The need for further deregulation is nevertheless accepted,

a government official.

A sweeping simplification of the 1973 investment law is already planned, according to officials, which will allow 100 per cent foreign ownership of all but a few strategic industries. The government also plans legislation over the coming year to make the central

wages addressed only minimum wages.

This provided significant support for the government's single-digit inflation target for the coming year. "It's impossible to understand Mexican economic policy without understanding the importance of the pact," says Mr Angel Gurria, undersecretary for international

financial affairs in the Ministry of Finance.

As part of the consensus building, senior government officials meet business and union leaders every Thursday to discuss issues ranging from the competitive problems facing the machine tools industry to increases in the price of health care.

Hopes in the longer term for investment - and in particular for the stable, long-term direct investment most needed by the Mexican economy - hang on the ratification of the North American Free Trade Agreement, negotiated last year with the US and Canada.

Despite the change in administration in the US, the odds are still heavily in favour of its ratification, if only because failure to do so would so damage the Mexican economy that it would have important ramifications for its northern neighbour. In the meantime, however, the close scrutiny of Nafta in the US Congress could prove unsettling in Mexico.

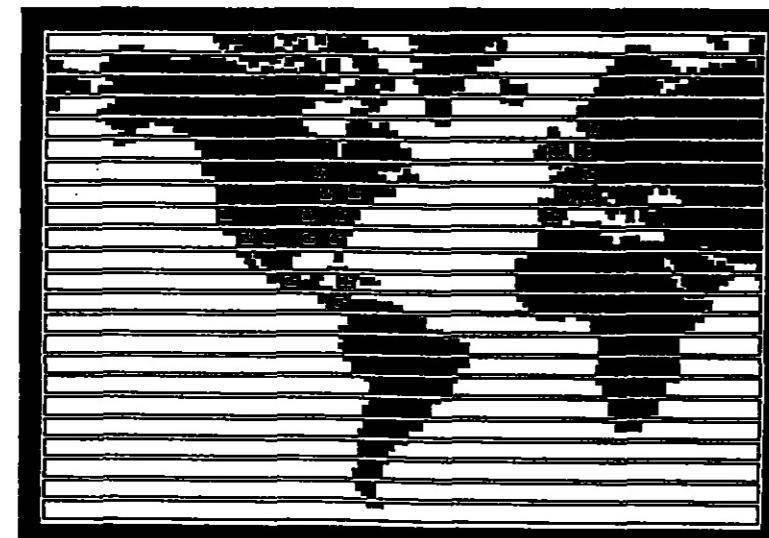
In the longer term too, the government needs, as the Organisation for Economic Co-operation and Development pointed out in its first report on the country this year, to increase savings. "Unless the national saving ratio recovers, investment may ... have to be scaled back," it said.

For the year ahead, however, the government underlined in the annual budget that there would be no dash for growth. The government plans to run a budget surplus of 1.7 per cent of GDP next year, and expects growth to be a sluggish 3 per cent and inflation 7 per cent. This year growth is forecast at 2.7 per cent, and inflation at 11 per cent.

Provided that in 1994 the economy is growing faster and inflation is under control, Mr Salinas will not mind. Such is the economic backdrop he needs for the presidential elections which, one way or another, will provide the ultimate verdict on his reform programme.

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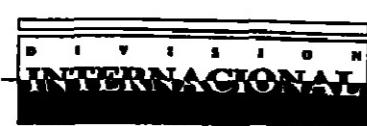
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El arte de ganar

THE race to succeed President Carlos Salinas started a few days after he was elected in 1988. But with just two more years left of his presidency, competition is heating up for the *dedazo* - the "pointing of the finger" that describes figuratively the president's hand-picking of his successor, writes Stephen Fidler.

There are few doubts that President Salinas, like his predecessors, will have the final say in choosing the candidate for his Institutional Revolutionary Party (PRI) and that his choice will win the 1994 election. The *dedazo* is likely to be made late next year, though Mr Salinas may wish to postpone it to early in 1994.

Most money is on four contenders: Mr Pedro Aspe, the finance minister; Mr Manuel Camacho, the mayor of Mexico City; Mr Donald Colosio, the social development minister; and Mr Ernesto Zedillo, the education minister. But the president may promote others - such as Mr Fernando Gutiérrez Barrios, the interior minister and Mr Emilio Gamboa, the social security minister - to increase the competition and put pressure on better-placed rivals.

Pedro Aspe

The fortunes of Mr Aspe, 42, are tied to the economy which he manages. If it is in bad shape, that would reflect badly on him as finance minister, and would draw attention to the political experience and sensitivities that Mr Aspe is seen to lack.

But if the economy picks up, he stands a good chance. He is the presumed favourite of the international finance community, businessmen, the Catholic church, and perhaps disaffected followers of the opposition National Action Party (PAN). In his four years as finance minister, he has barely put a foot wrong, engineering a successful reduction in inflation, privatisations, pension fund and fiscal reforms.

Mr Aspe has a PhD in economics from Massachusetts Institute of Technology, and is

The race to succeed President Salinas

Four men wait for a finger to point ...

the technocrat's technocrat. There is nothing he likes more than to take out pencil and paper and explain why Mexico's current account deficit is self-financing. He speaks almost perfect English, is courteous and charming, and has successfully forged alliances with some old-style politicians, such as the agriculture and labour minister.

But the general consensus is

he would be make a better president than a presidential candidate. He is aristocratic, slightly aloof, and no favourite

has a master's degree in urban planning from the University of Pennsylvania.

He scored points for managing the party's convincing victory in the 1991 elections, and is seen as a capable administrator. The head of the Social Development ministry, he has the enviable task of managing the National Solidarity programme, a \$2bn-\$3bn a year anti-poverty project. He travels with the president on his Solidarity tours, and may receive the implicit support of local Solidarity committees across the country.

However, very little is known about what he thinks, and he may lack the ideological vision that has characterised the Salinas presidency. He is not as sharp or articulate as some of his rivals, and is likely to be more dependent on advice when deciding policy. He has also made his share of errors, deciding for example to select a wealthy pig farmer, Mr Eduardo Villaseñor, as the PRI candidate for the recent governorship elections in Michoacán. Mr Villaseñor was later forced to stand down.

As president, Mr Colosio would probably proceed cautiously with economic and political reform, wary of upsetting too many vested interests.

Donald Colosio

The only contender to have held elected office, Mr Colosio, also 42, is seen as the compromise choice. From the northern border state of Sinaloa, he is pragmatic and down-to-earth. At weekends he can be seen riding around the village of Tepotzán on a motorcycle, a typical common touch.

As head of the PRI for three years, he would carry the party vote if nominated. But he is also presumed to share broadly the economic vision of President Carlos Salinas, and also to be the president's powerful chief of staff, Mr José Cordero.

Mr Zedillo, 40, has an economics PhD from Yale, and

was budget minister until last year. In that post he revealed an unwavering seal in his campaign to cut unnecessary spending, leading some to complain he lacked compassion and political "savvy". He is a strong economic reformer, but unlike Mr Aspe, from middle-class origins. Perhaps this may make him more palatable to the Mexican public.

But his political inexperience came to light this year in a row over new school history textbooks. A controversy over flattening references to Mr Salinas

Zedillo's middle-class origins may make him more palatable to the Mexican public

resolved most of the recent electoral disputes.

His conciliatory style, fear of making enemies, and difficulty in making up his mind earn him the scorn of the technocrats in government, some of whom would resign were he to come to power. He shows little interest in economics, and is believed to have opposed some of the president's more important economic reforms. He came under intense criticism earlier this year for refusing to confront protesters blocking the city centre, so the president felt compelled to take him to lunch in a popular cantina, to which the nation's media was invited.

But Mr Camacho has presided over important reforms in Mexico City's finances, is striving to change the city's political structure, and has restored the fortunes of the PRI. In 1991, the PRI won 45 per cent of the vote, from 28 per cent in 1988. He has shown great aplomb in defusing potentially violent clashes.

If elected, he is likely to concentrate on reducing income inequalities, and bring the PRD back into the political fold. He favours more political reform.

Much can happen over the next year to shape the president's thinking and how he analyses the country's priorities to the end of the century. If he is convinced that the No 1 issue is further structural reform in the economy, Mr Aspe's stock would rise. If his main worry is dissension in the PRI, Mr Colosio's chances would improve. If he believes it is time for conciliation within the country or if he becomes concerned about its governability, Mr Camacho might find himself in the frame.

The fact is, though, that nobody except the president knows what is in his mind. Furthermore, favourite contenders have a habit of losing out. Fascinating though it is, discussion of the *dedazo* is - as one Mexican writer has pointed out - one of Mexico's most useless subjects.



Stephen Fidler on prospects for exporters

Advantage of being near US

THE Mexican government has moved a long way to improve conditions for Mexican exporters, not least through its pursuit of a stable macroeconomic policy. But there is wide agreement that further improvements in the country's economic structure are needed.

The need for further action by both government and the private sector is underlined by this year's report from the Organisation for Economic Co-operation and Development. It comments: "Observers judge the quality of Mexican products as comparable with the bottom end of OECD countries and falling short of the standards achieved by the Dynamic Asian economies."

Some of the problems associ-

ated with doing business in Mexico are well-known: poor transport infrastructure, in particular the railways and difficult telecommunications, although deregulation has allowed larger companies to surmount some of these problems, by allowing them, for example, to install their own systems. High labour turnover rates – in some *magnitudas* industries reaching 100 per cent a year – are also often cited as a problem.

However, it is clear that manufacturers' experience is varied. As the OECD report observes, Mexico, in the past demonstrated its capability to innovate. It cites the glass manufacturer, Vitro, as

one with an international reputation for product improvement and innovation.

Furthermore, the figures suggest exporters are having some success in a difficult market. Until August, manufactured exports grew 7½ per cent year-on-year despite the weakness in the economy of the US which buys two-thirds of Mexico's exports.

Mr Andreas Sperl, head of Mercedes-Benz Mexico, says in the past 18 months his company has been able to reduce labour turnover from 30 per cent of the workforce to below 10 per cent. He has also seen a big jump in productivity. He adds of his new employees: "They earn \$40,000-\$50,000 a year, probably 40-50 per cent of what they'd cost in the US, and they are 10-20 per cent more productive than in the US."

The company, which produces trucks for the Mexican market, is to start manufacturing around 1,000 cars a year from next year. Mr Sperl says the evidence suggests the quality of products is as high as anywhere.

Most businessmen emphasise the importance of training. Mr Jose de Jesus Valdez, director of petrochemicals at Mexico's Alfa conglomerate says: "If there was a limiting factor, I

would say that we in the petrochemicals industry face a shortage of technical people."

According to Mr Jeffrey Gannon, president of the board of GE de Mexico, a subsidiary of General Electric of the US, in many of its recent investments, which have mainly been outside metropolitan areas on greenfield sites, "we have found the quality and the productivity to be better than in many of our plants in the United States and around the world."

Mr Rodrigo Guerra, director general of IBM de Mexico, says

the 150 people who provide the intellectual foundation for its operation give value for money.

"They earn \$40,000-\$50,000

a year, probably 40-50 per cent of what they'd cost in the US, and they are 10-20 per cent more productive than in the US."

In gearing up Mexico's for-

merly closed economy to export, the North American Free Trade Agreement is expected to play a critical role.

One sector where Mexico is

expected particularly to benefit

is that of textiles, where busi-

nessmen say all three Nafta

members will benefit, mainly

over their Asian competitors.

But Mexico should be a partic-

ular beneficiary because wage

rates of \$2.20 an hour compare



The nuclear power plant at Laguna Verde was Mexico's first

(photograph by Lisa Taylor)

with \$12 in Canada and \$10 in the US.

Mexico is also seen to have a logistical advantage over south-east Asia: its proximity to the US should allow for shorter lead times and therefore more responsiveness to US consumer demand.

In some areas, Mexican business is expected to have a tough time. Small and medium-sized companies may find it hard to compete, particularly with the high current cost of credit in Mexico. Furthermore, many of the old import substi-

tution industries may find it impossible to compete against the US.

Mr Gannon contrasts the success of one of the company's newer products, manufactured in Mexico, with the difficulties that are likely for more traditional plants in Mexico. This year, GE will export \$200m of gas ranges to the US from Mexico which has also added to US employment. "In the process of creating jobs in Mexico we also created over 2,000 jobs in the US supplying the materials and components.

But he goes on: "There are other businesses created 50 or 60 years ago principally for the Mexican market; they are not as competitive and we will have to rationalise manufacturing in these." In areas such as light bulbs, for example, there might be economies of scale of 100:1 to the US advantage.

As a rule of thumb, in areas

where there is global excess capacity, the Mexican industry

is unlikely to survive. "We'll

have rationalisation of manu-

facturing in both directions."

Mr Gannon says.

Mr Sperl of Mercedes-Benz agrees. His company's decision to begin modest car production in Mexico was made easier by Nafta, which gave the company the strategic option of selling into the US market from Mexico. Though no decision had been made to exercise the option, it existed nonetheless. In the future, there was the possibility of regional specialisation in its US and Mexican truck operations. "You can't think about different regions, because now it's one."

POLITICS

Reform plan outlined by Salinas

THE PAST electoral year has been a difficult, even turbulent, one for Mexico's Institutional Revolutionary Party. The ruling party lost the gubernatorial election in Chihuahua and municipal elections in Baja California. Even worse, its sitting governors in Tabasco, Jalisco and Michoacan resigned under intense opposition pressure.

The resignations followed those last year in Guanajuato and San Luis Potosi after the opposition cried electoral fraud. They brought the number of non-elected interim gov-

ernors appointed by President Salinas since coming to power to 17, out of 31 states. More than half of Mexico is now ruled by unelected governors, or the equivalent.

The routine of election and post-election protests has left almost no-one satisfied, and brought pressure on the government to achieve consensus on the rules of the electoral system, and for political reform. As Mr Sergio Aguayo, a political scientist and president of the Mexican Academy of Human Rights, says: "Elections used to give ritual blessing to the PRI candidate, and so were relevant. But now they are becoming irrelevant to resolving political problems."

From the government's perspective, the demonstrations have damaged the credibility of Mexico's electoral process and tarnished the international image of the Salinas presidency. The governors' resignations have divided the rank-and-file of the PRI, and strengthened the opposition.

Four years into his administration, Mr Salinas has set out the government's approach to political reform. He wants to make the PRI a more modern political party, and there will be legislation to make electoral conditions fairer for all political parties.

The president said in an interview that the reform of the PRI "has not finished, it has to go further", echoing the views he gave at a widely publicised breakfast with 650 leaders of the PRI in late October. Then, he made it clear that the old rules had to change, and the party had to abandon past practices. Mr Salinas said the PRI had to change further its internal structure, ideology, candidate selection and finances.

But it remains unclear whether Mr Salinas will give the PRI any power to select candidates, including the president, or any influence on government policy. Without such authority, it is doubtful whether the PRI will become a

modern political party.

In his November state-of-the-union address – a three-point plan for political reform that would set a ceiling on electoral spending, make party finances more transparent, electoral authorities more independent and give fairer access to media – the president said the new electoral legislation would be negotiated between the political parties. It is still uncertain what, if any, agreement will be reached.

Government officials say the legislation will be introduced after April next year. According to one, "they will set the rules of the game for political competition for the 1994 presidential elections". The legislation will give more public money to the parties, and make donations less dependent on their popular vote, establish tight rules on the amounts that individuals and organisations can contribute to campaigns; compel parties to publish party finances; give each political party similar television time; and give parties the right to veto officials from the Federal Electoral Institute.

If the left-wing Party of Democratic Revolution fails to endorse the government-inspired electoral reform, the PRI is likely to settle, as in the past, for agreement with the centre-right Party of National Action. The leadership of the PAN is ready to negotiate with the PRI, in part because it has been a beneficiary of the political reform. It now has three governors, and controls over 100 municipalities.

But the PAN has to tread carefully as nine leading members – including a former presidential candidate – have already resigned from the party because of its pro-govern-

ment stance. In an open letter the leaders wrote: "The party has acted not as an opposition party but as one more sector of the system." However, Mr Luis Alvarez, president of the PAN, said they resigned in "frustration" at not winning internal votes.

The government is likely to meet practically all the PAN demands, in part to avoid what it fears above all – an opposition unity candidate for the 1994 elections, possibly under the leadership of Mr Jesus Silva Herzog, former finance minister under President Miguel de la Madrid. The PAN has shown no interest in backing such a candidacy in the past, but if negotiations with the PRI were to break down, that could still become a possibility.

Damian Fraser

FINANCIAL TIMES

LATIN AMERICAN SURVEYS

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Latin Amer Finance & Inv	April 6
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Bolivia	September 22
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The Mexican Bank with business sense.

IN THE judgment of Mr Francisco Rojas, who heads Petróleos Mexicanos, one change above all provides the key to the extraordinary transformation that has taken place in the world's fifth largest oil company: labour relations.

When Mr Rojas was put in charge of the company by President Carlos Salinas, the company was dominated by a union and a system that fostered economic inefficiency and corruption. "Without changes in Pemex's labour relations, no other changes would have made sense. That is the fundamental change. The rest are very important issues but they are secondary to our success in changing labour relations," he said this month.

The arrest in the early days of the Salinas administration of the Pemex union boss was a first step in the rapid debilitation of a union which, having once been among the strongest in Mexico, is now among the weakest. The workforce has been cut from 168,000 in 1988 to around 130,000 now and labour contracts have been changed to allow the company much greater flexibility in the way it does business.

However, the lack of openness to competition of Pemex still makes it relatively inefficient. The Organisation for Economic Co-operation and Development, the Paris-based think tank of 24 industrialised countries, points to estimated suggesting efficiency losses at Pemex could still cost more than 1 per cent of Mexico's GDP. "Even if the full privatisation of Pemex is currently not



The Pemex refinery at Tula, Hidalgo

feasible for political reasons, efforts should be made to increase its efficiency. It might, for example, be feasible to decentralise the giant company and privatise those parts for which this is possible under the constitution."

Though it has generally embraced privatisation, the Salinas administration has been unwilling to lift the constitutional impediment on

The OECD says that efficiency losses at Pemex could still cost more than 1 per cent of Mexico's GDP

selling Pemex to the private sector. This in part reflects the view that privatisation would weaken the ability of the state to extract the rent due to it from the oil being pumped. Pemex's contribution to public revenues has declined, but it is still substantial - it averaged

26 per cent between 1988 and 1991, compared with 39 per cent between 1982 and 1984. It still accounts for about 30 per cent of export revenues.

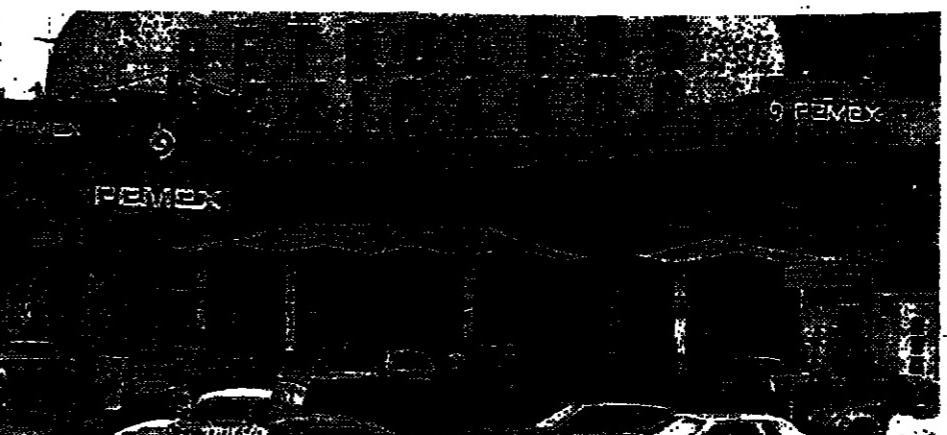
Nonetheless, the logic of further opening Pemex's activities to international competition is relentless. Not only does the economy suffer efficiency losses, but at a time of fiscal austerity, it is unlikely that the government would be willing or able to provide Pemex with the kind of investment capital it needs for the optimal development of all its businesses.

If that provided the logic, the explosion in April at Guadalajara - which killed some 200 people and for which Pemex was held responsible -

provided the public support and strengthened the case for a more radical reorganisation of the company. That reorganisation is now under way.

Pemex has been restructured as a corporate holding company with four subsidiaries: exploration and production, refining, gas and basic petrochemicals and petrochemicals. From the start of next year, each of the operating subsidiaries will charge the other international prices for its oil or services, a marked change from the previously attempted system of transfer pricing.

Furthermore, the results for each operating company will be published which should provide greater precision about



A Pemex petrol station in Mexico City

Stephen Fidler on the restructuring of the national oil company

Pemex is transformed

transfer project which, unlike the more common build-operate-transfer projects, is allowed under the constitution.

In such projects, Pemex says it is benefiting from its joint venture with Shell under which the capacity of the Deer Park refinery in Texas is to be expanded. Mr Ernesto Marcos, corporate director of finance, says: "We are learning a lot about how to do these trans-

The new tax regime being proposed would allow Pemex to operate as an international oil company

actions from the Shell deal."

Furthermore, the government is also expected to submit to Congress this year a new tax regime for Pemex aimed at allowing it to operate more as the international oil company that Mr Rojas says he wants to create. Currently,

Eight basic petrochemicals remain reserved to the state. For the rest, Pemex is going to pursue a series of policies where we will make alliances and co-investments in areas that suit us. We will sell off activities where private initiative can give greater added value. Plants that are not profitable and that cannot be modernised technically will be closed."

Investment spending by Pemex next year of \$3bn is also likely to be supplemented by off-balance sheet finance for the construction of 150,000 barrels-a-day in extra refinery capacity at Salina Cruz. The company is in the initial stage of seeking a financial adviser for this \$1bn build-lease-

revenue transfers to the government are negotiated yearly based on the company's operating results. The government is unwilling to see its tax take from Pemex drop, but wants to provide more transparency and consistency to its tax regime.

The idea is that Pemex would pay royalties based on the oil it brings out of the ground under a regime with similarities to that operating in the British North Sea. It would then, like any other corporation, pay corporate income tax and profits left over would be paid as dividends to the government. On gasoline sales, Pemex would receive Houston-based prices, with the excess paid at the pump above that going to the government in the form of excise taxes.

Until now, says Mr Rojas, this has been one of Pemex's structural problems. "Pemex cannot analyse itself as a business when its tax structure gives no direction in relation to business."

While Pemex remains closed to competition in important areas, it is unlikely to be able to answer criticisms of its inefficiency convincingly. But senior management recognises that further change in Pemex is inevitable and desirable. Pemex should make greater use of automation and technology, and its international operations need to be strengthened. The private sector should play a greater role in its businesses. If efficiency demands it, Pemex should import. Above all, the philosophy of the entrepreneur must permeate much deeper into the company.

Damian Fraser on the shake-out among the country's banks

To the victors, the spoils

IT HAS been a tumultuous year for Mexico's 18 banks and 26 brokerages. Having had to deal with privatisation, restructuring and refinancing, they have watched sharp falls in their share prices in the face of rising interest rates and a slowing economy.

The banks' loan book grew sharply, and those non-performing more than doubled, to reach 3.1 per cent of the total. A handful of banks lost an estimated \$500m after the rise in interest rates slashed the value of the government paper they were holding.

To top this, the government allowed foreigners to compete in the Mexican market. According to the proposed North American free trade agreement (Nafta), foreigners will have up to 8 per cent of market share in 1994, rising to 15 per cent by 2000. Then,

with some safeguards, the market will be free.

The banks' most testing experience has been their privatisation, and the subsequent formation of integrated financial groups, comprising banks and brokerages. The 18 banks were sold for more than \$12bn, an average of 14.75 times earnings and 3.07 times book value. While this was a triumph for the Mexican government, the high price has put acute pressure on the banks to cut costs, raise finance and in many cases redefine their core strategies.

Mexican banks have to reach new capital levels of 8 per cent (risk-adjusted) by the start of next year, but many are finding it difficult. Government authorities say they will show leniency to those that are moving in the right direction.

For the banks that get it

right, the rewards are high. Mexico is under-banked and under-leveraged, with just one branch per 18,000 people, and credit equal to 6 per cent of GDP. In the US, by contrast, there is one branch per 4,000 people and credit is 63 per cent of GDP. Net margins remain high - at about 6.8 per cent - and in the fast growing retail sector, should stay that way. Few expect foreign banks to enter the retail market in the short term given the high entry costs, with or without Nafita.

The two largest banks, Banamex and Bancomer, account for almost 60 per cent of total assets, and by virtue of their size, management experience and superior technology, are most analysts' favourites to benefit from the expected growth in the financial sector. While Bancomer is Mexico's

leading retail bank, Banamex is the top corporate bank and dominates the capital markets.

Banamex was bought by Accival, Mexico's largest and most successful brokerage, for \$3.2bn in August last year; and the two now form Grupo Financiero Banamex-Accival, or Banacel. The new owners - Mr Roberto Hernandez and Mr Alfredo Harp Hel - have fired or accepted the resignation of the majority of top managers, in a shake-up intended to assert more discipline and central control. Banamex's former managers are now found running Comerrex and other smaller banks.

"When we took over this bank, it was seven banks vertically organised. Now it is one horizontal bank, and we have removed four layers of bureaucracy," says Mr Hernandez.

Banacel hopes to maintain

its position as Mexico's leading corporate bank, expanding its presence in car loans, mortgages and credit cards, while reducing its personal loans business. Mr Hernandez says his bank has no interest in expanding significantly in the US or Europe, arguing that Banamex "is going to concentrate where we have a competitive advantage."

Bancomer's ambitions suffered a blow in June when it was forced to withdraw a \$1.5bn equity offering after steep declines in the Mexican stock market. Its plans to expand have inevitably been affected.

It then experienced a second setback when it lost around \$200m on *ajustabonos*, govern-

ment paper whose real interest rate rose from 2.5 per cent in April to over 7 per cent more recently. The losses reflect the group's trading rather than commercial banking bent: it still holds uncovered risky positions in the money and currency markets, and derives a large slice of profits from capital markets activities.

Bancomer's strength, by contrast, is in commercial banking, from which it makes over 90 per cent of profits. The bank was bought for \$2.5bn from investors from the Monterrey-based Grupo Visa, which owned Vamsa, the successful financial services company. Bancomer is now Grupo Financiero Bancomer (GFB).

GFB's ambitions suffered a blow in June when it was forced to withdraw a \$1.5bn equity offering after steep declines in the Mexican stock market. Its plans to expand have inevitably been affected.

Other banks are struggling to define their market niche.

Banca Serfin, the third largest bank and bought by investors from the brokerage Operadora de Boisa, has been in some disarray, and in September the

which comprises the bank, the brokerage Absa, and a leasing and factoring company.

The new owners have kept most of the top management, and, unlike Banacel, had the good fortune to make their equity offering of \$837m in March, when Mexico's stock market was still hot. While the bank hopes to maintain its leading position in the retail market, it is currently trying to bolster its presence in the corporate segment.

Other banks are struggling to define their market niche. Banca Serfin, the third largest bank and bought by investors from the brokerage Operadora de Boisa, has been in some disarray, and in September the

owners fired scores of senior and middle managers. It is paying the price of a rapid and perhaps ill-considered increase in loans over past years.

Comerrex, the fifth largest, and bought by investors from Inverlat, is pursuing a pan-Latin American strategy, and has bought brokerages in Colombia, sold a 5 per cent stake to Banco Novia Scotia of Canada, and hopes to form more alliances with financial groups in the US and Latin America. Like other Mexican banks, Comerrex is focusing on the retail and middle-level corporate market.

As competition between these and other banks heats up, observers expect a second round of mergers and rationalisation. Foreigners, who so far have limited presence to the occasional small-size strategic stakes, may move in at this point.

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Equity and bond financings

Quiet end to year

THE STEADY flow of both equity and bond financings by Mexican companies this year was interrupted by the collapse of the Mexican stock market in June.

Weak stock market conditions put the brakes on several planned equity offerings for companies such as Banamex, the Mexican bank. Several companies then switched planned equity offerings into the bond market, which soon succumbed to a severe bout of indigestion.

Consequently, after a surge of activity in the first half of the year, the market for Mexican debt and equity is ending the year on a quieter note. According to bankers, it is likely to remain on hold until the new year.

After a two-year rally, the Mexican stock market fell 15.5 per cent in June, the sharpest drop since October 1987, but has since recovered some ground. The market rallied strongly on growing confidence that the election of Mr Clinton in the US would not jeopardise the Nafta free trade agreement.

Meanwhile, the shift of funding to the bond market has overstretched demand, amid rumours of \$3bn equivalent of funding in the third quarter, according to bankers.

Grupo Dinia's recent \$150m five-year deal and Cemex's \$280m seven-year deal are among the offerings which were shifted to the bond market after equity market conditions proved unfavourable. Some companies felt that stock market prices were at an unattractive level for issuance, while other companies, whose stock prices have been performing particularly poorly, found the market closed to them.

The effect of the surge of supply in the bond market has

inevitably been a widening in yield spreads relative to the US treasury market. Yields for state-owned Mexican companies, such as Pemex, the oil company, and Nafima, have widened substantially, and increased funding costs are expected to keep these borrowers out of the market for the time being.

Five-year Pemex paper now trades at around 300 basis points over the comparable US treasury yield, compared with a historically tight level of 195 basis points early this year, according to Mr Miles Prothero, a director of Swiss Bank Corporation.

The impact on yields in the corporate sector has been even greater. For example, a deal launched last year for Apasco at a yield spread of 357 basis points tightened to 260 basis points before widening to a current level of 380 basis points.

Weak corporate credits are now forced to pay as much as 450 basis points over the US treasury yield curve to tap the market. "Small companies are paying 12 per cent for one-year or two-year money (in the Eurodollar bond market). But they would have to pay 25 per cent in the domestic market," one banker explains.

Meanwhile, the shift of funding to the bond market has overstretched demand, amid rumours of \$3bn equivalent of funding in the third quarter, according to bankers.

Bankers are expecting activity to pick up again in the new year, but in the meantime it is likely to be concentrated in the commercial paper market. A handful of borrowers, such as Ica, the construction company, may try to tap the bond market before the end of the year.

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Damian Fraser's guide to staying well-informed

Puzzling figures may be wrong

SINCE Mexico is awash with financial newspapers, magazines, newsletters, government bulletins and press releases, one might think that obtaining accurate and timely information is an easy matter. However, a lot of the material published is of little use or misleadingly presented, while much that would be useful never appears.

First port of call should be the National Institute of Statistics, Geography and Informatics (Inegi), responsible for national accounts and other official statistics. Based in the state of Aguascalientes, it is managed as if it were an autonomous organisation, though it answers to the finance ministry.

Inegi receives praise from international agencies, such as the Organisation for Economic Co-operation and Development, which are impressed by its statistical techniques and professional integrity. It is responsible for producing and/or disseminating basic economic statistics – quarterly GDP by sector, monthly trade figures, monthly industrial surveys, and monthly urban employment surveys. Every 10 years it conducts a general census – the latest is for the period 1980-90 – and every five years a general economic census.

While its information is usually accurate, it is not always accurately reported, in part because press releases that accompany statistics are often extremely misleading. On any given month, it is quite possible Mexican newspapers will report four different trade figures.

Mexican idiosyncrasies also make some figures puzzling. Unemployment is recorded at about 3 per cent, which no-one takes seriously. But this reflects a tight United Nations definition of unemployment – anyone who has worked more than a hour in a week is considered employed.

Lack of unemployment insurance in Mexico means just about everyone finds some

work for an hour. However, Inegi produces about 10 variations of unemployment figures, to account for under-employment not captured by the UN definition.

For these and other reasons it is best to obtain information direct from Inegi. For recent economic figures, information can be received by fax through a new service open to subscribers, known as Infotax (91-800-49059). Alternatively, Inegi will send statistics by modem, or PC-disk.

Inegi's 1990 census offers a rich mine of material. All the population and housing statistics

Unemployment is put at about 3 per cent, reflecting the UN definition: anyone who works more than a hour a week is employed

are available on PC-diskette (and very soon on CD-ROM) at a state, municipal, locality and even by "block" (ie, four or so streets) level.

Armed with the correct PC-disk you can discover the educational attainment of residents, or the number of houses with electricity, running water, sewerage, electricity in any specified block of streets in any Mexican town.

Such information could be used by a local planner deciding where to build a hospital, by businessmen interested in opening a supermarket, by political parties wanting to target probable voters. They can receive up to

Inegi has nearly 1,000 subscribers, and can be seen in the office of practically every stockbroker, finance director and senior finance ministry official. The main drawback is that with a market as volatile as Mexico's, it becomes compulsive watching, and uses up much of the day.



The Chihuahua Pacifico train at the Canyon de Lobera

(photograph by David Simeon)

MEXICO'S government keeps a tight grip on the media.

A few months ago La Jornada newspaper, one of Mexico's more independent dailies, published two photographs on its front page under the heading, "Two political rallies in the same town". One showed the Official government candidate in front of a huge crowd; the other showed the candidate for the opposition Party of Democratic Revolution addressing an empty street.

La Jornada was paid \$10,000 to publish the latter photograph (for which it later apologised) which was taken several hours before the opposition candidate's rally began.

The only unusual thing about the affair was that it came out in the open. Every day, Mexican newspapers print news stories or photographs for which the government pays. They can receive up to \$30,000 for a front page item.

In the same way, journalists typically receive monthly payments from the government departments they cover, of as much as \$3,000 a month or about three times their salaries. They also receive a

raise-off from advertisements placed by their government department of about 10-15 per cent.

However, such practices are not universal. A growing number of Mexican newspapers – El Financiero, a financial city daily, El Norte of Monterrey, El Diario de Yucatan, Zeta in Tijuana, the weekly Proceso and Mira, generally do not take government money, and they criticise with abandon. And as the government retires from large parts of the economy, its ability to control the independent press with the threat to pull advertisements is declining.

In the same way, journalists typically receive monthly payments from the government departments they cover, of as much as \$3,000 a month or about three times their salaries. They also receive a

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President Salinas and his government have done little to change such practices, realising how useful they are in maintaining power. Government money continues to subsidise journalists and newspapers that

criticise the administration are given the cold shoulder.

The ministry of finance refuses to advertise in Mexico's main financial newspaper, El Financiero, because it does not like its editorial line. It does not even include it in its daily synthesis of newspaper articles.

Until September, the president would not let an El Financiero journalist on his press aeroplane.

Televisa, Mexico's near-monopoly television company, is like part of the ministry of information," says Mr Raymundo Riva Palacio, an editor of El Financiero, and frequent critic of the government. Televisa almost never reports post-electoral demonstrations, rarely interviews leaders of the opposition, or runs anything embarrassing to the government.

Damian Fraser

THE PRESS How the government edits the news

THE PRESS

If newspapers criticise the administration, they get the cold shoulder

rival when they make such attacks.

President Salinas and his government have done little to change such practices, realising how useful they are in maintaining power. Government money continues to subsidise journalists and newspapers that

What changes there have been have yet to have much of an effect. The government has ended the monopoly of the state-owned paper company, giving newspapers the right to import their paper. But this in practice has been of limited importance, since cutting off a newspaper's paper supply was much too much a Draconian and public measure of censorship. And most newspapers still buy their paper from the state-run company, one of the few to have escaped privatisation under President Salinas.

In September the government announced that newspapers would have to pay the expenses of covering the president's international trips – up to then all expenses, including entertainment, were paid by the government. A presidential spokesman said "that in a nation of symbols this is important".

On television, the government reckons the imminent privatisation of two state-owned channels will put increasing pressure on Televisa to be more independent in its coverage.

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DEVELOPMENT BANKING INSTITUTION

Damian Fraser explains the Nafta pact**New era for trade**

TWO months ago, in San Antonio, Texas, trade ministers from Mexico, US and Canada formally signed the text of the North American Trade Agreement, concluding 15 months of negotiations. The September 7 treaty, if approved by the countries' legislatures, is likely to mark a profound transformation in Mexico's economy.

For while Mexico is already relatively open to trade, the treaty will almost certainly ensure there is no going back to protection. Almost every Mexican industry now knows it will have to compete with its most efficient North American rivals in order to survive. However compelling the case for special protection, the Mexican government will be prohibited by law from offering it.

At the same time, the treaty gives Mexican exporters full and certain access to the US and Canadian markets, irrespective of protectionist developments in the US. Trade disputes will be settled by special trade panels which, judging by the US-Canada treaty, will be objective and fair in their rulings.

Most significantly, the treaty provides a legal framework for almost all business and trade in Mexico, perhaps for the first time. The thousand pages of text tie the hands of any Mexican government wishing to meddle in the country's economy. Rules over foreign investment, tariffs, quotas, rules of origin, customs regulations, export subsidies, intellectual property, sanitary and anti-dumping measures, technical standards, even driving licences and medical tests of lorry drivers, are precisely laid down for the foreseeable future.

In a country where government policy has swung wildly over the past two decades, and where obedience to laws is often half-hearted, the implementation of such a treaty would herald important social and economic changes. An underdeveloped country with an Hispanic-Indian culture would have to play by the same rules of the game as the US and Canada.

The promise of such rules is intended to attract foreign investment, and above all,

put increasing pressure on Mexican businesses and labour to match the productivity of the US and Canada. Many of the impediments to doing business in Mexico – corruption, over-regulation, outdated labour laws, poor infrastructure – would hope the government, gradually be removed. But at the same time, many inefficient Mexican companies – perhaps whole sectors – will go bust.

The treaty has still to be approved by the legislatures in the three countries. The vote in the US, where President-elect Bill Clinton has expressed conditional support, will probably be in the first half of next year. If passed, the agreement will come into effect on January 1, 1994.

In the first year the US will free tariffs

on an underdeveloped country with an Hispanic-Indian culture would have to play by the same rules as the US and Canada

on 7,300 goods, which last year represented 84 per cent of Mexico's US-bound non-oil exports. Many of these already entered free under the General System of Preference. Mexico will eliminate tariffs on goods equivalent to 41 per cent of its non-oil imports.

In the fifth year the US will free tariffs on another 1,200 products, or 8 per cent of Mexico's non-oil exports, while Mexico will eliminate tariffs on the equivalent of 18 per cent of goods. In the tenth year the US will liberalise another 7 per cent of Mexico's exports, and Mexico 38 per cent of its US imports. The tariffs on a few sensitive goods, such as sugar, maize and beans, will not be liberalised for 15 years.

The details of the treaty reveal that almost all the significant concessions were made by Mexico, although the US failed to persuade the government to open up the oil industry to foreign investment:

Financial sector.

Mexico has agreed to open up 8 per cent

of the banking sector and 10 per cent of securities sector immediately to foreign investment, gradually increasing this to 15 and 20 per cent respectively by the year 2000. During the transition Mexico will apply individual market shares of 1.5 per cent and 4 per cent to banks and securities houses respectively. After that, full national treatment will apply.

This consists of three separate bilateral agreements. Mexico and the US will replace all non-tariff barriers with tariff, which will gradually be phased out, and allow roughly one-half of their agricultural trade to go through tariff-free immediately. Mexico will protect maize and beans for 15 years; the US sugar and orange juice for 15 years. The three countries will permit domestic support programmes in agriculture, but work to eliminate export-subsidies, and commit themselves not to use marketing standards to discriminate against another country's products.

Oil. Mexico's constitutional ban on foreign investment in the oil sector remains. However, Mexico will gradually open up procurement of the state oil and electricity companies to US and Canadian companies and allow US and Canadian companies to sell gas directly to Mexican businesses. It already has reduced the number of basic petrochemicals reserved to the state from 19 to eight.

Mexico will immediately halve its 20 per cent tariff on cars, and cut the remaining 10 per cent gradually; phase out over 10 years the requirement that links imports to a car company's exports, and the rule that forces cars in Mexico to have 38 per cent local content. The US will eliminate its much smaller tariffs, and consider Mexico to be North American for purposes of the Corporate Fuel Efficiency Act.

Transportation.

US truckers would be able to carry cargo into Mexico by the end of 1999.

The treaty also covers dispute settlement procedures, intellectual property laws, rules on competition policy and monopolies, the administration of domestic laws that affect bilateral trade, and technical standards. But the agreement does not cover immigration (barring that of professionals), nor provide funds for regions unable to compete.

Poor Mexican infrastructure

protection of the environment that it seems appropriate; provides that no Nafta country should lower its health, safety or environmental standards to attract investment; and allows disputes over factual questions on the environment to be resolved by the Nafta trade panels.

Mr Sergio Reyes Lujan, the president of Mexico's official Ecology Institute, says such measures "establish formulas to ensure that free trade is equitable" while respecting national sovereignty. For many Americans, the measures do not go far enough. For example, President-elect Clinton has called for additional parallel environmental accords.

First, environmentalists worry that

US firms would cross the border in search of laxer environmental regulations. Although Nafta does not explicitly forbid lowering standards to attract investment, it is not clear whether lax enforcement that attracts investment is punishable. A number of US furniture makers have thus moved to Mexico to escape tougher Californian environmental laws.

A recent report by the US General Accounting Office concluded that none of six maquiladoras (foreign-owned plants) that they studied complied with Mexico's required environmental impact assessment before going ahead with operations.

Second, critics complain that the dispute resolution panels comprise

has practised (for Mexico) an enlightened industrial policy, building homes for new workers, industrial parks for businesses, roads for better communication.

The result is that while most of Mexico stagnated in the 1980s, Aguascalientes boomed. From 1986 to 1991 the state's economy grew by 6.8 per cent a year, against just 2.8 per cent for the country. Industrial production rose by 8 per cent a year. Social indicators – such as literacy, access to potable water and electricity, improved far more rapidly than in the rest of the country.

The boom was fuelled by foreign investment, which increased by an average of 40 per cent a year. Xerox, Nissan, Texas Instruments, Dupont and Hewlett-Packard, among others, moved into the state, and helped exports increase six times.

Nissan has invested around \$1bn in adding to its engine plant an assembly plant with capacity for 120,000 cars that will be inaugurated in December. Next year, Nissan Mexico expects to export

40,000 of these cars to Japan, the first time the company will import foreign-made cars into Japan. While Nissan has had terrible labour relations in its Cuernavaca assembly plant, its engine plant in Aguascalientes has been trouble-free.

Aguascalientes' growth has brought its problems. Compared with poorer neighbours such as Zacatecas or Guanajuato, the town is polluted, noisy and unsafe. The huge demand for labour means the turnover of workers is high, and salaries are higher than elsewhere. There is still a shortage of housing and water. Says the state's new governor, Mr Otto Granados: "We have resolved the primary problems of employment and growth; now we have to tackle the secondary ones."

Mexico's centralised political system makes this difficult. States have little power to raise money directly. Mr Granados would like to put computers in the state's primary schools, but the federal education budget does not permit it.

While there is some decentralisation in education, for example – Mexico's finance ministry shows no inclination to allow local government to raise money, or decide how it should be spent. Richer states, such as Aguascalientes, inevitably become constrained in their ability to grow.

Damian Fraser

Continued from Page 1

Macro Asesoria Economica, an economic consultancy.

This point is conceded by some government officials, although some of what needs to be done will have to await another administration. Officials say the government is working on proposals to give independence to the central bank and is expected to introduce a significant streamlining of the 1973 foreign investment law, which will open new sectors of the economy to foreign ownership, apart from a small number of industries deemed strategic.

Poor Mexican infrastructure

– transportation and ports – severely weakens the economy's competitiveness and will have to be addressed. Restrictive practices in the port – the average wage of a docker is \$1,100 a month – mean that the most important port for Mexican trade is now Houston, Texas.

Reform of the bureaucracy is also seen as necessary, as are sweeping changes to the legal and judicial system, where procedures are unduly lengthy and bribery of judges common.

Not only is this necessary to

prevent the widespread abuse of individual rights, but it is also an essential condition for a functioning market economy with enforceable contracts and property rights.

Some finance officials see the need for a reform of the labour laws, which make it impossible to cut nominal wages except in business emergencies.

"We have inflation inertia in Mexico. Wage settlements have been too high for inflation to fall faster," says one.

All this is needed to provide the backdrop to improve Mexican productivity, itself the key to economic growth and the alleviation of the extreme poverty which grips a fifth of the population. While Solidarity, the Salinas anti-poverty programme, continues to increase in size and importance, growth will have to be relied on to raise the general standard of living.

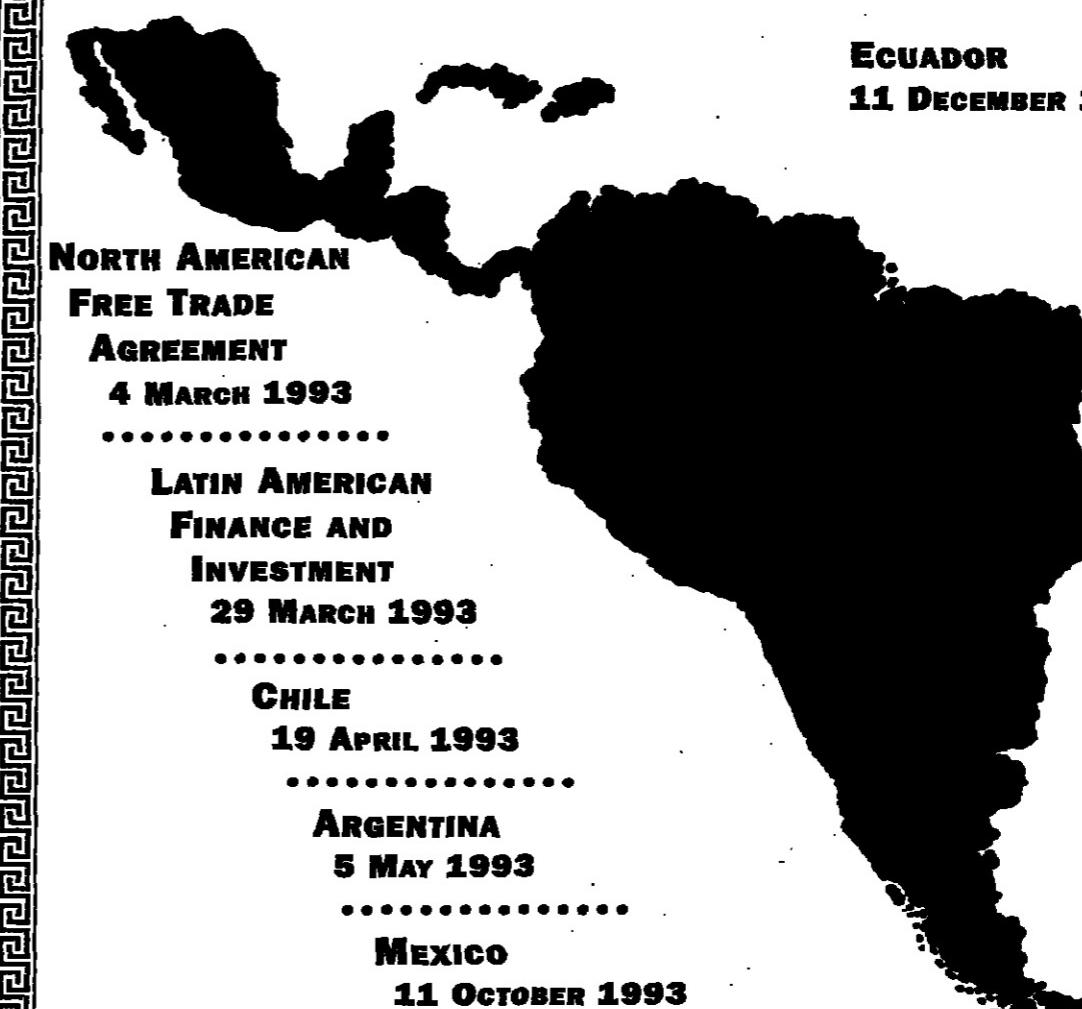
Some foreign and local businessmen report positive experiences with respect to the productivity of their own workforces, but these indicators need to become more common. The agricultural and educational reforms of the administration should be steps, over the longer term, towards Mexico to the next century.

Political reform

1

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HOME ENTERTAINMENT

SECTION IV

Friday November 20 1992



The Smurfs - TO ANOUNCEMENT: As in a previous era, an evening at home could become more like an evening at the concert hall or cinema.



Sharp LCD video projectors can produce a picture on a 150-inch screen or even the living room wall. New electronic products are taking the home entertainment experience one notch higher in terms of quality.



A Kodak Photo CD player outputs a picture to a Philips wide-screen TV. The player will also offer CD audio reproduction via the home hi-fi system in addition to playback of photographic quality images on television.

and advances in technology in the latter half of the twentieth century have had a dramatic impact on how people entertain themselves in their free time at home.

The boundaries of home entertainment have widened to encompass a huge array of electronic products ranging from video games and laser disc players to personalised stereo.

In Japan, where trends in consumer electronics are increasingly set, toy-makers report that for the past few years children have shown little interest in bicycles and bats, which can only be used outside. These changes in how we spend our free time, brought about by new technologies and new needs, have had a significant impact on how we relate to one another.

For one thing, the sheer variety of consumer electronic products on offer and the dramatic fall in prices over the years, have made entertainment much more personalised.

Instead of one family television set in one corner of the living room and the grand stereo in the other, there will often be two or three television sets in a household, and an audio set for each member of the family.

Science fiction becomes reality

Multimedia, which is the combination of video, photography, animation, data, voice and audio in one medium, is the hottest trend in electronic entertainment today, writes Michiyo Nakamoto

Pioneer captured the trend in one word when it introduced an audio series several years ago with the brand name "Selbie".

But it was Sony which took the concept of personalised entertainment to its extreme when it introduced the Walkman, its portable cassette tape recorder, although strictly speaking this is more often used outside the home.

The spread of video games, which are essentially an interaction between one player and one machine, has now taken the trend to a point of no return.

This self-absorption in a world of science fiction is aggravated, in the minds of many concerned parents, by the difficulty the older generation has in relating to the thrills of shooting green lambs and exploding marshmallows. The world of video games is not of the same order as the world of Mickey Mouse or Winnie the Pooh.

And while parents will always find it difficult to relate to their children at some point, video games - highly popular among children from about the age of five - may be pushing that alienation threshold significantly lower.

The popularity of video games points to another trend that is gathering momentum in the home entertainment market: that of interactivity.

Video games entertain their players by propelling them into another world which they not only observe but can actually interact with.

The immense appeal of video games has shown that, contrary to what the large number of couch potatoes may suggest, many people enjoy active and interactive participation, which conventional forms of in-home entertainment such as television, radio and video, only provide vicariously.

Camcorders, which involve people in the creative process of filming and sing-along

karaoke systems, also point to the popularity of interactive entertainment.

But the technology that promises to bring out the full potential of interactive entertainment is multimedia.

Multimedia, which is the combination of video, photography, animation, data, voice and audio in one medium, is the hottest trend in electronic entertainment today.

What it provides, apart from the combination of many forms of entertainment in one convenient package, is a superb ability to interact with the material - to alter the visual image, combine different sound tracks with different pictures, move one picture from a scene to elsewhere - much in the same way that computers enable writers to alter vast amounts of writing at the touch of a button.

A good example of how multimedia can be used for interactive home entertainment comes from Philips, the Dutch

electronics group, which has launched a multi-media entertainment system it calls Compact Disc-Interactive (CD-I).

By connecting a CD-I player to the television, players can wander through the vast collection at the Smithsonian Institution in Washington, learn how to play the guitar in lessons complete with slow-motion movement, or test their creative skills in a musical

entertainment game.

The increasing use of the digital format in consumer electronics is what has brought interactivity into the home and future developments promise to take this interactivity into other realms of entertainment.

So, rather than interact with material that is specifically created for that purpose - such as video games and CD-I titles - we will increasingly be interacting with films and music that have been produced primarily for other purposes.

Sega, the video games

player, has already launched a video game that allows players to make their own music videos using film footage of popular musicians and interact with characters in the recent box-office hit *Batman Returns*.

Continuing work on digital television, and the US decision to adopt a digital advanced television standard, means that we may soon be able to interact with what is on the television screen.

Developments in technology are also at the root of the enormous increase in the choice of entertainment programmes and the improving visual and aural quality of the programmes that are available.

Greater choice in software again means that entertainment becomes more personalised. In addition to choosing what we want to buy or rent at the video store, we will soon be able to choose what we want to broadcast into our homes.

For example, digital technology is likely to bring a significant change to radio broadcasting soon in the form of digital audio broadcast (DAB), which will offer not only the possibility of vastly increased numbers of radio channels available but also the ability to choose the contents and record them in CD-quality sound.

The advent of DAB has prompted the idea of the armchair record shop where consumers could choose to listen to specific tracks from a pre-published catalogue and make perfect digital copies of the music on their recordable digital tapes or discs.

These technological advances aim to replicate as best they can the experiences in life which we define as entertainment: to create something closer to the real thing.

All of which appears to be leading inexorably to a world of virtual reality. And what can be more personalised, more interactive and more close to the real thing than to don a VR helmet and experience the sensation of speeding your way through shooting stars in a runaway spaceship?

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USE CALL

MIYASHIRO

HOME ENTERTAINMENT 2

For years the gurus of high technology have been forecasting the arrival of multimedia - the bringing together of text, sound, still images, full motion video and computer graphics in one box of user-friendly electronic tricks. Finally it seems, the waiting may be almost over.

The concept of multimedia has excited those in both the consumer electronics and computer industries, and led some to predict that the next wave of high technology products will boast interactive multimedia features.

By integrating some of the features of the personal computer, compact disc (CD) player and television, multimedia's advocates argue that a new generation of easy-to-use digital consumer electronics equipment will emerge, capable of delivering high quality information, entertainment and education.

Already a handful of new products have been launched which could help define the shape of the home entertainment market into the next century. Most of them are built around variants of the CD and appear to offer some, if not all, of the promised features of multimedia.

The audio CD, developed jointly by Philips and Sony in the early 1980s, revolutionised the pre-recorded music business. Since then it has been followed by numerous spin-offs including digital video Laser Disc and several variants of CD-Rom - a disc-based system for storing large volumes of data and other information which can then be used and manipulated, for example, by a personal computer.

But CD-Rom applications do not have to be big and bulky. Among the latest CD-Rom developments is the Data Discman, a portable "electronic book" launched by Sony which gives the user instant access to a vast quantity of visual information stored on an 8cm compact disc. Each disc can contain up to 100,000 of A4 text and/or 32,000 images, or a combination of both. One CD electronic book therefore contains the same amount of information as about 200 London telephone directories.

TV grows in importance as centre of entertainment

WHILE the advent of HDTV is being anxiously promoted by television manufacturers and somewhat less enthusiastically awaited by consumers, the television set is still growing in importance as the centre of family, as well as personal, home entertainment.

While the home video brought an element of greater choice to the TV, that choice is being enhanced further by the availability not only of more programmes through cable and satellite television, but of new forms of media and entertainment such as laser disc, video games and compact disc-based systems.

In the US, there are already moves to provide pay-per-view video directly to consumers at home.

Bellcore, the research consortium for the regional Bell telephone companies, for example, demonstrated earlier this month a way to provide consumers with video-quality movies down the telephone line.

Meanwhile, TV-based consumer electronics products such as laser discs and video games are turning the TV into a multi-media entertainment box used not only to watch broadcast programmes but to enjoy music, video clips, interactive games and interactive sing-along songs, also known as karaoke.

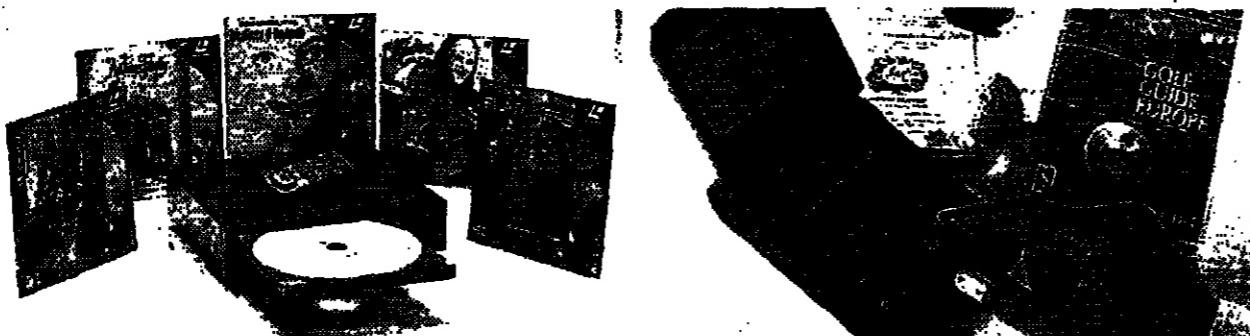
Philips has taken this one step further with the introduction of CD-I (Compact Disc-Interactive) which combines video, photography, graphics, data, animation and CD-quality sound on a compact disc player hooked up to the TV. The TV itself may be caught in a slump as a result of a lack of new ideas to stimulate demand and the difficulties faced by both wide-screen television and HDTV in taking off. But demand for entertainment systems using the TV as a screen has never been greater and is likely to continue growing.

Michiyo Nakamoto

In Japan and on both sides of the Atlantic the "hot" new subject for high-tech computer whiz-kids is Virtual Reality - or VR to those in the know.

The past 18 months has witnessed an explosion of activity surrounding VR, including heavyweight books on the subject, conferences, seminars and exhibitions and an unexpected cinema box office hit - *The Lawnmower Man*.

Meanwhile, among all the hyperbole, the first practical applications of VR - in the entertainment sector and in other fields - have begun to appear. At the same time VR, and the mostly small start-up companies which have pioneered the technology, are beginning to be taken seriously by big multinational companies, academic institutions and government agencies.



Video laser discs and player: about 550 titles are available in the UK

The Data Discman displays visual information stored on an 8cm CD

MULTIMEDIA

A single box of tricks

The Data Discman was launched in the UK in July with a £250 price tag along with a selection of "titles" including the "Time Out" London guide, a comprehensive English-French dictionary, and an electronic speech writer's kit providing about 10,000 quotations and jokes classified to specific topics "for easy searching."

Since then, new titles are being added at the rate of at least four a month and have been designed to cater for reference and educational needs, business use and general leisure.

In Japan, where the Discman was launched in 1990, more than 70,000 players were sold in the first five months.

Certainly, with several million PC-based standard 12cm CD-Rom drives already in use worldwide there seems little doubt that electronic publishing, particularly of reference material for use with home computers or in schools and libraries, is likely to grow.

An estimated 2,000 CD-Rom drives including telephone directories, medical databases, service manuals, newspapers and other reference works are already available. However, growth could be limited by the lack of comprehensive standards.

A relatively new standard, CD-Rom XA, was launched in 1988 in an attempt to bridge the gap between CD-Rom and CD-I or Interactive CD discs

which can store a fully digital multimedia mix of sound, video, text and graphics.

CD-I, backed by Philips, Sony and Matsushita, has been developed in competition with several other multimedia standards including digital video interactive (DVD) backed by Intel, the US chip maker, and others.

However it was the introduction in Europe earlier this year of the first consumer electronic CD-I players by Philips

The availability of high quality CD-I "software" is probably

possible to "tour" a museum, "play" a round of golf on some of the world's greatest courses or control the characters from "Sesame Street" - the popular children's programme.

Philips has learnt the painful marketing lesson of some of its earliest new product launches and tried to ensure that there is sufficient software available to tempt the first hardware buyers.

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"best of" DCCs. **Your digital world.** As you would expect from a digital player, DCC lets you access your favourite songs directly by entering the track number. But it also has features a CD player can't match. Beyond track numbers and elapsed track time, it displays the song title, album title and the recording artist.

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leaving anything behind. There are hundreds of DCC titles available, from your favourite artists. Even better, you can play all your existing cassettes on every Philips DCC player, from today's home player to the portable and Car Players coming next year. For further information on where to find DCC call 0800 212 643. **Your music will never be the same.**



PHILIPS

HOME ENTERTAINMENT 4

 AUDIO

Two new formats prepare for battle

THE introduction of two new digital audio formats in Europe this autumn has set the stage for another classic consumer electronics battle - this time in the portable audio market.

Since the introduction of the Sony Walkman 13 years ago, the portable audio market has been dominated by the analogue cassette tape. But while Walkman-style personal stereos and other portable cassette players have conditioned consumers to expect good-quality music, the digital Compact Disc player has raised sound quality expectations significantly.

In an attempt to provide portability with high definition digital sound quality, new formats such as Sony's Digital Audio Tape (DAT) have been introduced, but have not proved a great commercial success, and standard CD players have been shrunk in size but have mostly proved too sensitive to movement.

So far none of these options has seriously challenged the conventional cassette tape which remains the most popular format for pre-recorded music. Recently, however, there have been some signs that dissatisfaction with the sound quality, durability and appearance of cassette tapes may be growing.

Sales of pre-recorded cassette tapes peaked in 1989 but fell by 11.5 per cent in 1990 and slipped again last year when 1.3bn pre-recorded cassettes were sold worldwide compared to 1.1bn compact discs, according to the London-based International Federation of the Phonographic Industry. This year the IFPI is predicting that compact disc sales will overtake cassette tape sales.

Consumer electronics companies believe that with pre-recorded cassette tape sales slipping, the market for portable audio equipment built around conventional tape players, estimated to be worth nearly \$10bn in the leading industrialised nations alone, could be at risk. This helps to explain the

determined effort which is now underway to define a new digital standard for the portable audio market.

Leading the assault are Philips, the Dutch consumer electronics group, and Japan's Matsushita, with the Digital Compact Cassette (DCC), and Sony with the rival 2.5-inch MiniDisc (MD) - a scaled-down and re-engineered version of the conventional compact disc.

The two new formats have many similarities and technically are fairly well matched. However there are also some significant differences. Both the DCC and the MiniDisc promise to deliver crisp, clear CD-quality portable digital sound, without annoying "sound skipping", the jogs and jumps that can occur with conventional portable CD players.

The DCC tape and the MiniDisc are both enclosed in protective cases

Both formats can also be used to record CD-quality sound, although sophisticated electronics have been built into the players to ensure that only one copy of digital source, such as a CD, can be made. An extra track on a DCC tape holds pages of text in a telephone-style form. This can be used to provide a biography of the composer, album title, song title and artist - or even display Karaoke-style synchronised lyrics on a TV screen, or on the LCD display of a remote control.

The DCC tape and the MD are both enclosed in protective cases for easier portability, and both players achieve miniaturisation by using new technology to compress digital data.

Probably the main advantage of DCC equipment is that it can play a traditional cassette tape, which means the music enthusiast will not have to abandon old cassette tapes. Philips sees DCC as eventually replacing the conventional cassette tape. However, this also

means DCC players will never be smaller than the smallest Walkman-style machine.

Sony's MiniDisc player is smaller, giving it an edge in terms of portability, and has the ability to skip from any one track to another very rapidly, like an ordinary CD. Sony believe this random access feature is something customers want more than backwards compatibility with earlier portable formats - the Japanese group points out that standard CDs have largely replaced the vinyl LP even though the two formats are wholly incompatible.

Initially prices for equipment capable of playing the new formats are likely to be considerably higher than those for conventional audio cassette players. But the basic digital technology has been proven and tested in earlier CD players and prices should fall quickly as volumes rise.

Similarly, the new digital tapes and MiniDiscs will retail at prices similar to existing CDs - prices which are themselves coming under increasing scrutiny in Britain.

The early availability of "software" in the form of recorded music could also prove supremacy, and in the battle for supremacy, and in the battle for the DCC camp should have had a key advantage because the format was formally launched last month well ahead of Sony's MD players.

Philips had said there would be about 500 titles ready for the October launch in the UK, but in the event delays meant that, as in Japan, the hardware went on sale before the tapes. Nevertheless, Phillips, which is spending £2m in Britain alone on a pre-Christmas advertising blitz to promote DCC, has forecast that despite the initial hiccup, more than 1,000 titles from most of the big international record companies supporting DCC will be on sale by the end of the year.

For both Philips and Sony, the stakes in the portable digital audio battle have been raised even higher by the business difficulties they currently face. Philips is in the middle of a group-wide restructuring programme aimed at slimming operations and raising efficiency and profitability while operating profits from Sony's worldwide consumer electronics business fell sharply last year.

Both companies are therefore in dire need of a new hit product. But while the hard-

ware battle between DCC and MC digital formats is likely to dominate the portable consumer electronics industry in the immediate future, other methods of delivering digital-quality sound could herald an even bigger shake-up in the delivery of high-quality digital music by the late 1990s.

The arrival of digital audio broadcasts (DAB), which is

being pioneered in Europe, could enable consumers equipped with suitable receiving equipment and a digital recording device like DCC or MD equipment to make their own CD-quality recordings direct from the airwaves.

DAB has several key advantages over conventional analogue broadcasting

the number of radio stations without congesting the radio waves. While each FM network needs 2.2 megahertz of spectrum to provide coverage to 98 per cent of the UK population, a DAB service could pack five national stereo channels in 1.75 MHz.

To use DAB, consumers will need to buy a new type of programmable digital radio built on computer chip technology. Although the cost of these new digital radios will initially be higher than conventional receivers, there are an estimated 2m radios currently in use around the world and manufacturers could therefore look forward to a huge replacement market, and very significant economies of scale.

In Europe, digital radio systems are being tested in France, Germany and Britain where the UK government has signalled its support for DAB and urged UK manufacturers to be first into the market. NHK, the Japanese public broadcaster, has also hailed

the European DAB system. The prospects seem less rosy in the US, however, where small regional radio stations are resisting the introduction of expensive new technology.

In Europe it is likely that frequency bands generally used by television will be opened up as temporary "parking" bands for terrestrial DAB services to be run in parallel with FM until sufficient receivers have been installed to make the full switch from FM to digital services. In the UK, the first DAB car radios are expected to be introduced as early as 1993, with other sets likely two years later.

However, as with the fierce debate which preceded the launch of the new digital recording formats, the thorny issue of copyright protection for music distributed over DAB or cable systems, and then copied on to tape or disc by subscribers, has yet to be addressed.

Paul Taylor

ADVERTISEMENT

The Difficult Life of the Audio Component

The audio component in search of a loving home has a difficult life today. Traditional qualifications like a powerful bass and sparkling treble are no longer enough. The sound of hi-fi, as most people know it, is being scorned for a far loftier goal.

When listening to live music, you are rarely aware of snappy transients, a clear midrange and other man-made contrivances. Nor do you think of laboratory artifacts like signal-noise ratios or dynamic ranges. Instead, you note the lilt in a saxophonist's tone, the footsteps of a leaping dancer, and all the other magical sounds that make you feel happy and alive.

Live sounds are so natural that you never even think about them. Yet hearing this level of realism from a hi-fi system would make your jaw drop. Astonishingly, today's very best audio products are being designed for precisely this goal. Of course, this requires both sophisticated engineering and creative thinking; conventional approaches will never do. A truly cutting-edge audio technology can be found in Pioneer's range of Legato Link CD players.

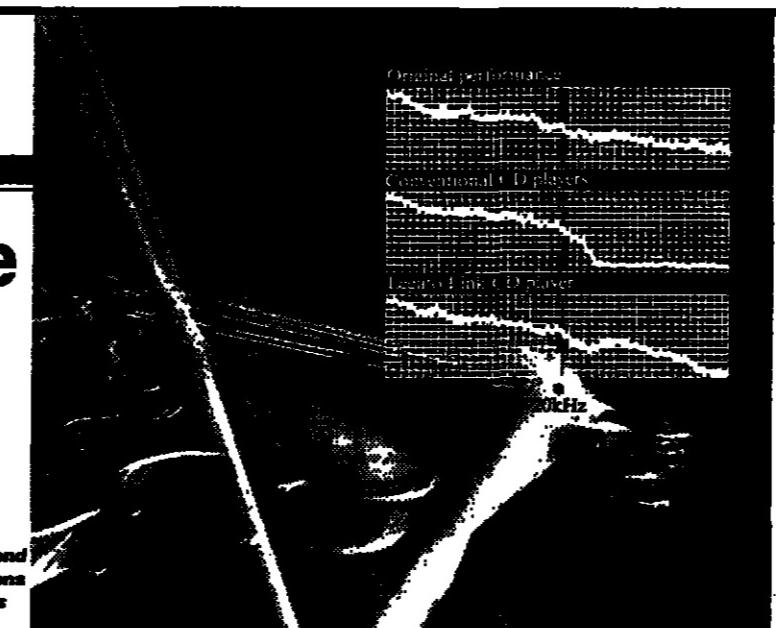
Traditionally, audio equipment has been designed to reproduce software accurately. But since no software is perfect, obviously the ultimate goal should be to reproduce the original event, not the software. For example, most companies have said that CD offers "perfect sound forever". But Pioneer, recognizing CD's inherent limitations, has never agreed. This led to the Legato Link, a circuit that analyses CDs, computes what the original sound was like before it was recorded, and corrects the digital signals so the final playback is as close

to the original performance as possible. Best of all, it works on all existing discs.

For Both Your Eyes And Ears

Yet no matter how natural it sounds, pure audio remains a highly artificial experience, for in real life you don't just hear - you also see. Simply stated, home entertainment should appeal to both the eyes and ears, just as in real life. The solution is the integrated audio-video home entertainment system.

However, a true audio-video home entertainment system requires an unprecedented level of innovation in electronics, optics, video and audio technology. Once again, creative thinking is the key. An outstanding example is Pioneer's range of combination Compact Disc/Laser Disc players. Their theatre-level LaserDisc (LD) picture and audiophile digital sound provide an unforgettable sight and sound experience. And with the addition of the Legato Link, their sound will transcend conventional CD limits as well. Particularly when combined with Pioneer's advanced loudspeaker amplification, and picture projection technology, the unrivalled visual and audio quality of a CLD player makes conventional home entertainment systems seem claustrophobic. Since a CLD player can play both audio CD and video LD, it is also perfect as the heart of a high quality home entertainment system.



Not Everyone Can Play

Few companies can actually manufacture a true home entertainment system. This demands the multi-field expertise of a comprehensive technological corporation, but it also helps to be an audio and video specialist. Like Pioneer. Founded in 1938 as an audio manufacturer, today Pioneer is second to none in laser, optical, magnetic, electronics, video, and audio technology. Yet, although we make some of today's most advanced entertainment products, to us, technology itself is not enough.

Pioneer's trademarks are quality and reliability. If a product doesn't meet our strict standards, we won't release it. Combining the sophisticated know-how of the dedicated specialist with the most advanced technology available, Pioneer products create a direct link to the thrill and emotion of the original performance. But we also emphasize versatile components that make sense for consumers. Designed to play and enhance the realism of a wide range of software formats, our products are specifically engineered against obsolescence. You see, we make life difficult for our products, because responsibility to the consumer is the most important factor of all.

PIONEER
The Art of Entertainment

 VIDEO GAMES

Spectacular growth as Europe catches fever

WHILE the consumer electronics industry as a whole has been suffering from a dearth of new products to whet the appetite of increasingly sophisticated consumers, the video games market has been enjoying spectacular growth and the fever is far from abating.

The video games market has grown over the years into a \$1bn industry and is increasingly attracting the attentions of large consumer electronics manufacturers, which are suffering from sluggish demand in their traditional markets.

The appeal of the video game compared with television or music is that it is active and interactive, says Mr Chris Anderson, managing director of Future Publishing, which publishes specialist magazines for video game fans.

Japanese and American consumers have been under the spell of Nintendo's *Super Mario II* game for several years now, with Nintendo regularly appearing on the charts of most popular toys.

Europe has been somewhat slower to catch the video game fever but having taken both Japan and the US by storm, Nintendo and Sega, its main competitor, are currently replicating their success in Europe.

Sales in the UK are expected to nearly double from about £250m to £500m next year.

The appeal of video games is not limited to their game contents. The synthesized music that accompanies *Super Mario* games and *Temis* have been in the pop charts and recording companies are said to be looking at the games industry as a source of added revenue.

Meanwhile, *Mario* will become the hero of a film to be released next year featuring Bob Hoskins.

While the growing European market has helped maintain a strong worldwide rise in the video games market, it is inevitable that once markets mature interest will die down.

However, fierce competition between Nintendo and Sega, the two leading forces in the market, is fueling innovation in both hardware and software that has kept interest strong.

By continually developing new technology and new games titles the two have been able to defy sceptics who say

that the fad for what, after all, is just a game, is bound to die sooner or later.

"If there wasn't any evolution in hardware, the software available would inevitably become boring," says Mr Philip Ley, marketing director of Sega Europe.

Sega's drive to break Nintendo's pre-eminence in the market has led it to be the first to introduce two of the latest state-of-the-art formats which are keeping sales surging.

Sega was the first to introduce more powerful 16-bit technology in its Mega Drive (known as Genesis in the US), which allows faster and more realistic games to be played than on the previous generation of 8-bit machines.

It has also taken the lead in introducing a system based on compact discs, which takes game-playing a significant leap forward by bringing increased information storage capacity, quality digital sound, stunning graphics, and realistic motion video to the screen.

Amid much fanfare, Sega announced the launch of a CD-ROM attachment which can be connected to the Mega Drive to play games on CD rather than conventional cartridges and demonstrated its potential on an enormous 750 sq ft screen in New York's Times Square.

Nintendo, meanwhile, has announced that it will also be launching a CD-ROM system. Together with Sega's announcement, it also confirmed expectations that the future of video games lies with CD-ROM. "Games will undoubtedly move to CD-ROM," says Mr Bob Tomal斯基 of What Video, an industry magazine.

The disc format provides greater speed and that is what video game fans want.

Another attraction of CD-based games is that because CDs are capable of storing a much larger amount of information, and thus detail, the quality of the visuals is much better than in cartridges.

Using CD-ROM also opens up the avenue to multi-media, the combination of digital quality sound, graphics, still photography and moving video, thus taking game-playing onto another level of interactivity.

In addition to graphics, the Sega CD-ROM games will use

what it calls "true video," or video that is close to television quality.

Software using footage from well-known films such as *Batman Returns* which will involve the player in fights with the Penguin as played by Danny DeVito, is in the pipeline - as are music games that allow players to make their own music videos using film from the live concerts of popular bands.

Sega has invested \$5m in Sega Multimedia Studio in Redwood, California, where it will produce not only computer-generated animation but also original movies for its interactive games.

It is working side by side with producer Steven Spielberg filming on the set of his next film to produce a game that will be released at the same time as the film.

Sega's aggressive move into new technologies is essential for it to gain what market share it can from Nintendo and keep its rival on its toes.

For consumers, the battle between the two giants which keeps the search for quality games and newer and better technology going, should be good news.

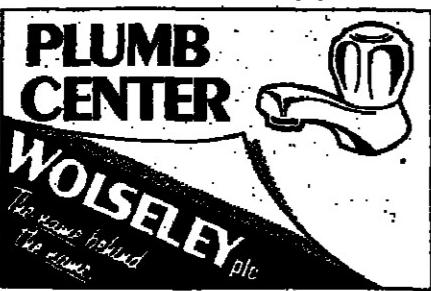
However, by moving into CD-ROM, Sega and Nintendo are treading on dangerous territory. There are already many computer games based on CD-ROM widely available, most notably Commodore's Amiga games which already have a strong installed base in some countries and sales equivalent to Nintendo or Sega in the UK.

Philips, meanwhile, has introduced a CD-based entertainment system and the wide variety of CD-based products available could create market confusion.

As the technology improves, you eventually get into the realms of virtual reality (VR), says Mr Ley.

When that happens, although it may be difficult to imagine today, we may very well no longer be tapping away at games consoles but donning a VR helmet with sensor pads attached to our eyelids and temples to enjoy a virtual trip through space cities and fight intergalactic wars with our minds rather than our fingers.

Michiyo Nakamoto



FINANCIAL TIMES COMPANIES & MARKETS

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Friday November 20 1992

**INSIDE****Lufthansa in profit but sees red ink**

Lufthansa, the struggling German airline, yesterday reported a profit for the third quarter but warned that it would revert to losses in the final three months of 1992. The company said that in September it made its first monthly profit this year. Page 18

NAB and subsidiaries fall

National Australia Bank (NAB), Australia's biggest and most profitable bank, reported a fall of 5.3 per cent in net profits for the year to the end of September. Page 19

Yorkshire Bank, a subsidiary of National Australia Bank, reported a 40 per cent drop in pre-tax profit in the year to September 30. Page 24

Clydesdale Bank, the Glasgow-based subsidiary of National Australia Bank, saw its pre-tax profits fall by £5m to £29m for the year to September 30. Page 24

Another US airline puzzle

The question bouncing around Wall Street's junk bond desks is "Just how bad is the financial situation at Northwest Airlines?" Analysts are trying to work out whether yet another US carrier is headed for the bankruptcy courts. Page 20

All change at Daiwa Securities

Daiwa Securities announced a net profit of zero for the first six months of 1992, cut its graduate intake by 40 per cent and launched a campaign for staff to "Do My Best" in encouraging investors to use the broker's services. The reforms reflect the upheaval in a securities industry which has begun to give up hopes for a rapid return to the free-spending days of the late 1980s. Page 21

Halcyon days end

Mr Vladimir Horlunov, until this week the top oilman in Ukraine, had achieved a lifestyle few of his countrymen can imagine. But Mr Horlunov was often absent from his office at Ukratokhnik, travelling frequently to the UK. This week, those halcyon days ended, as Mr Leonid Kuchma, prime minister, disbanded Ukratokhnik and fired its senior directors. Page 32

Interest rates depress Istanbul

Dashed hopes on inflation and high real interest rates have given Turkish equities a miserable year, but if one thing can be said with confidence it is that they have probably never been cheaper. Back Page

AT&T plans finance float

AT&T, the US telecommunications company, announced yesterday that it is planning to float 15 per cent of its equipment leasing and finance subsidiary, AT&T Capital, as part of a strategy to give the unit greater financial independence from the parent group. Page 20

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Chief price changes yesterday

FRANKFURT (DM)		PARIS (FFP)			
Fliesen	2004	+ 22	Carrefour	7216	- 30
Aldi	855	+ 22	CGP	557	- 31
Hennes Ph	915	+ 10	McDonalds	1005	- 25
Kaufhof	456	+ 112	Perrier	205	- 18
Peals	827	- 33	Saint Louis	1020	- 17
DM & Duper	522	- 8	UPA	402.1	- 14
Lux					
NEW YORK (\$)		TOKYO (Yen)			
Fliesen	47	+ 1	Stiebel Eltron	250	+ 30
Compagnie Générale	43%	+ 1%	Swatch	252	+ 30
Tele-Contact	36%	+ 1%	McKesson	240	+ 36
Transport	45	+ 1	Sankt Korbinian	400	+ 45
Peals	53	- 1%	Starbucks	245	+ 32
Net Computer	1412	- 2%	Peals	1013	- 15
New York prices at 12.30pm.					
LONDON (Pence)		Marcus	125	+ 6	
Albert Fisher	53	+ 5	Peals	225	+ 10
Malibis	50	+ 5	Sheld	85	+ 10
Dorothy Pring	410	+ 15	Telegraph	373	+ 12
Evdco	91	+ 19	Union Discount	98	+ 25
Fliesen	63	+ 5			
PostSprint IT	57	+ 5			
Deutsche	53	+ 10			
Hecht OH	322	+ 5			
Hecht (GB)	308	+ 11			
Lapchi Int'l	195	+ 15			
Meyer Int'l	224	+ 16			
Miller Group	85	+ 15			

Volvo reports SKr707m loss in first nine months

By Christopher Brown-Humes
in Stockholm

cent to SKr31.6bn in the first nine months, although only 228,900 vehicles were sold, compared with 238,200 a year ago.

The truck division also reported a loss for the period, although it was profitable in the first nine months of 1991. Truck sales were down to 35,500 units from 38,400, continuing the trend of the last five quarters.

Demands for cars and trucks in key markets declined, more than offsetting the benefits of its rationalisation programme. The result compares with a SKr1.27bn profit for the same 1991 period.

Sales climbed to SKr6.25bn, although, excluding acquisitions and divestments, they were down by 1 per cent. The operating loss climbed to SKr1.52bn from SKr1.25bn.

In the third quarter, the group incurred a loss after financial items of SKr1.15bn, compared with a SKr1.15bn profit a year ago. The operating loss was marginally down at SKr683m from SKr692m, thus to reduce losses from the company's car operations.

Earlier this month Volvo announced plans to close two of its three Swedish car plants and shed 4,500 jobs as part of a continuing rationalisation programme.

The group says it has already cut annual costs by SKr1.5bn since 1990.

Car sales revenue rose 3 per

Alice Rawsthorn on troubles at the theme park

Euro Disney incurs loss but pays dividend

By Christopher Parkes
in Frankfurt

Euro Disney, which has been clouded by controversy ever since opening its lavish Euro Disneyland theme park in April, yesterday confirmed analysts' gloomy predictions by announcing a loss for last year.

The results, the first annual figures to be published since Euro Disney's launch, reveal a loss of FF1.65bn (US\$1bn) on overall revenues of FF12.45bn for the year ended September, which includes nearly six months of the park's operation, against net profits of FF2.65bn in the previous year.

The immediate outlook is little better.

Euro Disney warned of further losses for this year.

Euro Disney has long since lost its star status on the stock market and the investment community's expectations of it are at a low. Its shares, which soared to a peak of FF1.64bn before the opening of the theme park, yesterday fell from FF1.5 to FF1.62.

Analysts had been bracing themselves for far heavier losses. The news that Euro Disney plans to gain a dividend – albeit a token FF1 – was well-received, as was the announcement that it has reached agreement with Disney, its US parent, to relax the terms of their financial arrangements.

Disney will waive its "management fee" of 3 per cent of total revenues for 1992 and 1993 – thereby forfeiting FF14.8m of the FF12.8bn park and hotel revenues in 1992 – and will postpone repayments until Euro Disney is profitable.

The crux of Euro Disney's problems is that attendance at the park and hotels has been lower than expected. Euro Disney, like its US parent, is notoriously loath to disclose financial information.

However Euro Disney has also been affected by its failure to adapt the formula of its US theme parks to meet the needs of the European market. Mr Forsgren said it was attempting to address this issue. It has improved facilities for coaches (more popular in Europe than the US) and made its marketing more explicit to try to cut down on crowding.

Euro Disney is also changing its merchandise mix to include more classic Disney character items and adding more points-of-sale. Similarly it is trying to cut staff (the biggest area of variable

Daimler in reverse in third quarter

By Christopher Parkes
in Frankfurt

THE sudden reversal of fortunes at Daimler-Benz, Germany's biggest company, showed up yesterday in an 8 per cent fall in net profits to DM1.27bn (750m) for the first nine months of this year.

Profits fell by half in the three months to the end of September. The downturn followed increases of 14 per cent in the first quarter and 18 per cent at the half-way mark and was attributed to "unexpected difficulties" in the vehicles divisions.

Markets had been prepared for the bad news after an informal announcement last weekend that net earnings for the full year were likely to fall by almost a quarter to DM1.5bn. Traders said the results were not as bad as expected and Daimler shares closed up DM6.30 at DM544 in Frankfurt.

Sales in the nine months under review rose less than 2 per cent to DM70.18bn, with the US showing a relatively strong 11 per cent increase. The company said further developments in this important market would depend largely on the recession and the value of the dollar against the D-Mark.

Mercedes-Benz, the vehicles business which produces more than two-thirds of group earnings, reported a 9 per cent increase in US car sales even though the market was stagnant. However, home market deliveries slumped 15 per cent, and in the rest of western Europe, only Britain, Spain and Portugal showed improvements.

Domestic commercial vehicles sales, which had improved by 8 per cent after the first six months, were down 4 per cent in the third quarter.

Sales in the rest of western Europe have fallen 7 per cent so far this year and worldwide deliveries are 4 per cent lower.

AGB, the electrical and electronic division, was helped by a 60 per cent rise in rail systems business to produce an overall 8 per cent sales increase.

Deutsche Aerospace, which has been hit by recession and defence spending cuts, reported a slight fall in sales to DM11bn, but expects the full year figure to reach DM15bn.

The Debs computer and financial services branch, by contrast, continued to expand. Total revenues rose 31 per cent in the review period to DM5.6bn.

Lex, Page 16; Details, Page 20

Walt Disney improves by 29%

INTERNATIONAL COMPANIES AND FINANCE

Opposition to Sugar's bid for Amstrad grows

By Paul Taylor in London

The controversial £113m (\$170.6m) bid by Mr Alan Sugar for the 65 per cent of Amstrad, the UK electronics consumer company, he does not already own faces growing opposition from small shareholders.

Mr Gideon Fiegel, founder of the Amstrad Shareholders Club - an informal committee of disgruntled shareholders who believe the 30p a share offer price for the electronics group is inadequate - claimed yesterday the club speaks for "more than 25m shares", or about 4.3 per cent of Amstrad's outstanding equity.

Mr Fiegel said he is hopeful that the club will be able to muster the 33.9m shares - a quarter of the shares Mr Sugar does not already own - required to block the bid to take Amstrad private again.

On the basis of Amstrad's share register, he estimates that about 31,000 small shareholders control roughly 230m Amstrad shares.

Institutional investors, each with less than a 3 per cent stake, are thought to control about 14.6m shares.

The shareholders' committee, which met earlier this week, has also appealed for institutional

investors' support. The Amstrad board and Kleinwort Benson, its financial advisers, are preparing for what promises to be a stormy annual meeting in London on Tuesday and an extraordinary general meeting which has been called for December 10 to discuss the bid.

The board, which is precluded by takeover rules from admitting shareholders to the bid because it has no non-executive directors, is expected to issue a letter to shareholders after the general meeting in an attempt to clarify what are seen as "certain misunderstandings".

Third-quarter profit at Lufthansa

By David Waller in Frankfurt

LUFTHANSA, the struggling German airline, yesterday reported a profit for the third quarter but warned that it would revert to losses in the final three months of 1992.

The company said that in September it made its first monthly profit this year, and that total pre-tax losses for the first nine months were DM220m (\$364m), down from a first-half loss of DM542m, meaning that it made a profit of DM280m in the third quarter.

The improvement was less due to business fundamentals than to the effects of an accounting change, the com-

pany said. In September the airline announced that it would switch to a less conservative depreciation policy for its aircraft and it said yesterday that this was the main reason for the better result.

The airline said that it achieved a significant increase in passengers carried and a further reduction in the rate of cost increases during the third quarter. Sales for the nine months rose 4.7 per cent to around DM11bn while the number of passengers climbed sharply, by 14 per cent to 7.1 million.

However, it warned that conditions in the industry continued to be bad, with prices under pressure because of intense competition. Another

negative factor was the appreciation of the D-Mark. This had hit profits by DM25m in the nine months and by DM14m in the third quarter alone.

Lufthansa said that the figures gave no reason to relax the current campaign to cut costs in all areas of the business and that it was too early to say that the company had turned the profits corner. For seasonal reasons, the fourth quarter usually brought a loss, the company warned.

Under the accounting change, Lufthansa will write-down aircraft over 12 years to a residual value of 15 per cent. As a result, the annual depreciation will fall from 9.5 to 7.1 per cent.

Ericsson's nine-month sales slide

By Robert Taylor in Stockholm

ERICSSON, the Swedish telecommunications group, made a pre-tax profit of SKr63m (\$10m) for the third quarter of the year. This contrasts with a SKr256m loss for the same period of 1991 and a SKr42m pre-tax profit for the second quarter.

Sales rose slightly in the third quarter to SKr9.7bn from SKr9.57bn. For the nine months ended September, net

sales dropped by 6 per cent to SKr30.62bn. Ericsson blamed this on continuing low investment volumes in important markets like Spain and the divestment of its cable and telephone operations in Latin America.

The company reported 22 per cent growth in order bookings for the nine months to SKr57.72bn. This was due mainly to a strong increase in public telecommunications and radio communication orders. Mr Lars Ramqvist, chief

executive, said the higher orders would make a full impact on net sales next year and he added that the forecast for the whole of 1992 of a low profit remained unchanged.

Mr Ramqvist claimed that Ericsson was strengthening its position as "a world-leading, independent supplier of telecommunications systems".

Yesterday, the company announced it was extending its partnership with Texas Instruments, the Dallas-based high technology company.

Wassall launches £94.3m bid for Evode

By Roland Rudd in London

WASSALL, the mini-conglomerate run by former Hanson executives, yesterday launched its biggest hostile bid to date with a £94.3m (£142.8m) offer for Evode, the chemicals and plastics group.

Mr Andrew Simon, Evode chairman, said he would fight the bid "tooth and nail" and urged his shareholders to reject the offer.

Wassall's cash offer of 80p per Evode share, compared with Wednesday's closing price of 72p, values the shares at £88.2m. Evode's shareholders have been offered share and cash-and-share alternatives.

The conglomerate is offering 85 new convertible preference shares for every 100 Evode convertible preference shares. This values each Evode convertible preference share at 88.5p compared with Wednesday's closing price of 75.5p, pricing all of Evode's preference shares at £26.1m.

Wassall's shares yesterday closed 15p down at 183p. Evode's shares rose 15p to 91p.

The conglomerate bought 3.5 per cent of Evode from Scottish Amicable at 80p a share.

Wassall is financing its deal with a three-for-five rights issue of 80p per share to raise £103m, net of underwriting commissions. It will be payable in two instalments, the second conditional on the success of the offer.

Hanson, the Anglo-US conglomerate, which holds 8 per cent of Wassall, is to take up its rights. The right issue is structured in stock units of 150p each which convert into Wassall shares.

Wassall is forecasting an increase of more than a 60 per cent in pre-tax profits for the year ending December 31 and a final dividend of 1.7p.

The North American plastics operations helped Evode increase pre-tax profits from £2m to £3.5m for the half year to March 28. There was a retained loss of £1.1m after paying dividends.

Lex, Page 16

Mercury helps C and W to 8% rise

By Hugo Dixon and Roland Rudd in London

CABLE and Wireless, the international telecommunications group, reported an 8 per cent increase in pre-tax profits for the six months to the end of September on the back of a strong performance by its UK subsidiary Mercury Communications.

Group profits rose to £278m (£370m) from £251m while turnover increased by £1.74m from £1.570m.

Mercury's trading profit rose 36 per cent from £55m to £94m while turnover grew 29 per cent from £243m to £307m. This was largely because market share increased at the expense of its main rival

British Telecommunications.

Lord Young, C and W chairman, also revealed yesterday that the group would be interested in establishing a "trans-border Mercury" in mainland Europe if the European Commission opens up the region's largely monopolistic telecommunications market.

Such a move could eventually account for investment on the same scale as C and W's £1.7bn investment in Mercury.

"Telephone prices in Europe are far higher than those in the UK, so you instinctively know there is a [business] case", said Lord Young.

Mr Mike Harris, Mercury's chief executive, described Mercury's results as a "truly tremendous perfor-

mance in a recession".

Mercury carried a daily average of 9.7m calls during the period, a 52 per cent increase compared with the same period last year. At the end of September, Mercury had an order base of 897,000 lines, 39 per cent more than last year.

Mr Mike Harris, Mercury's chief executive, was bullish about the future following Mercury's alliance last week with BCE, the Canadian telecommunications group.

He predicted that price competition would continue to be vigorous but not to the same extent as last year when BT cut its international prices by 12 per cent.

Mercury is also hoping to boost its share of the residential

market with the introduction of "easy access", which will make it simpler for customers with BT lines to use Mercury's long-distance service.

Other parts of C and W grew less strongly. Trading profits for the Asia and Pacific region, made up largely of Hong Kong Telecom, grew 5 per cent to £251m from £240m.

Mr Rod Olsen, finance director, said profits were reduced by the rise in the US dollar against sterling. He expects the recent devaluation of sterling to have a beneficial impact.

Earnings per share increased 4 per cent to 18p from 17.3p and the dividend rose 12 per cent from 4.25p to 4.75p.

Lex, Page 16

Audi plans to shed 10% of workforce

By David Waller

AUDI, the quality car division of Volkswagen, yesterday became the latest in a line of large German companies to announce large-scale lay-offs in response to rapidly deteriorating business conditions.

In a short statement, Audi said that it was planning to reduce its workforce by 3,000, 4,000 people next year. This is about 10 per cent of the 37,500 people currently employed by the group.

The move follows similar drastic measures from other car manufacturers, including Daimler-Benz which this week announced plans to cut 40,000 jobs by the end of 1994, mainly in its Mercedes-Benz subsidiary.

Audi blamed the move on the outlook for the economy, which would be much worse next year. The group said it was necessary to take these structural measures in order to remain competitive in international markets and to increase productivity further.

It said discussions over the way in which the jobs would be cut were under way. Factories in Ingolstadt and Neckarsulm would bear the brunt of the job losses.

Metallgesellschaft disappoints

By David Waller in Frankfurt

METALLGESELLSCHAFT, the German mining and industrial group, yesterday reported 1991-92 pre-tax profits down by nearly a quarter and signalled its gloom about the future by saying that it is proposing a dividend cut from DM10 to DM8 per share.

Group profits for the year ended September sank by 23 per cent to DM245m (\$163.5m), the second consecutive year that the profits have fallen sharply against a background of falling metal prices. Last year profits stuck 35 per cent from DM63m in 1990, but the dividend was maintained.

Turnover rose by 20 per cent to more than DM20bn, the increase reflecting the company's purchase late last year of businesses from Stora of Sweden, mainly Buderus and Dynamit Nobel.

Excluding these acquisitions, turnover rose by three per cent.

Mr Heinz Schimmelbusch, chief executive, blamed the downturn on a combination of factors which hit the metals business especially hard. These included falling prices, the adverse effect of currency movements and the costs of upgrading facilities to make them more friendly to the environment, he said.

The figures imply a sharp

Rothschild Bank replaces KPMG

By Ian Rodger in Zurich

ROTHSCHILD Bank, the troubled Zurich affiliate of N. M. Rothschild & Sons, has sacked its auditors, KPMG, Fides Peat.

The move follows a series of misadventures at the bank in the past decade, culminating last summer in the arrest of its credit manager for fraud and a SF250m (\$178.5m) capital restructuring backed by the Rothschild family.

Mr Adolf Lustenberger, the KPMG partner responsible for the Rothschild Bank account, confirmed that the firm was "in the process of being replaced".

Rothschild Bank decided at its last board meeting that it would replace KPMG with Coopers & Lybrand, the firm which is carrying out an investigation into the bank's problems.

A spokesman for the bank

said last week that losses on loans made improperly over a period of several years to companies associated with the German-Canadian property financiers, Mr Karsten von Werssbe and Mr Wolfgang Stolzenberg, would reach around SF250m.

In this case, the commission is likely to ask KPMG how it could have failed to notice and draw attention to some of the problems at the bank.

Mr Lustenberger would not comment on the role of the firm.

A spokesman for the bank

said last week that losses on loans made improperly over a period of several years to companies associated with the German-Canadian property financiers, Mr Karsten von Werssbe and Mr Wolfgang Stolzenberg, would reach around SF250m.

Audi blamed the move on the outlook for the economy, which would be much worse next year. The group said it was necessary to take these structural measures in order to remain competitive in international markets and to increase productivity further.

It said discussions over the way in which the jobs would be cut were under way. Factories in Ingolstadt and Neckarsulm would bear the brunt of the job losses.

U.S. \$150,000,000 First Bank System, Inc. Floating Rate Subordinated Capital Notes Due 1996

Interest Rate	5 1/4% per annum
Interest Period	20th November 1992 22nd February 1993
Interest Amount per U.S. \$50,000 Note due 22nd February 1993	U.S. \$685.42
Credit Suisse First Boston Limited Agent	

U.S. \$250,000,000 BANK OF BOSTON CORPORATION Subordinated Floating Rate Notes Due 2001

Interest Rate	5% per annum
Interest Period	20th November 1992 22nd February 1993
Interest Amount per U.S. \$50,000 Note due 22nd February 1993	U.S. \$652.78
Credit Suisse First Boston Limited Agent	

To the Holders of

SHEARSON LEHMAN CMO, INC.

Series F, Class F-1 Floating Rate Bonds Due February 20, 2018

Pursuant to the Indenture dated as of February 1, 1985 between Shearson Lehman CMO, Inc., as Issuer and Texas Commerce Bank as Trustee, notice is hereby given that the interest rate applicable to the above Bonds for the interest period November 20, 1992 through February 19, 1993 as determined in accordance with the applicable provisions of the Indenture, is 4.5625% per annum. Amount of interest payable is \$30,341,479.94 per \$10,000 principal amount.

SHEARSON LEHMAN CMO, INC.

Notice is hereby given that the Company has announced a bonus share issue of 45,900,000 shares with a record date of November 20, 1992. In accordance with the provisions of the Indenture constituting the Bonds the Conversion Price has been adjusted from NT\$624.1 to NT\$334.16 per share effective November 20, 1992.

Tung Ho Steel Enterprise Corporation November 20, 1992

CITIBANK

Charts - Do You Look Before You Leap?<br

INTERNATIONAL COMPANIES AND FINANCE

Japanese trading companies to cut top salaries

By Charles Leadbitter

EXECUTIVES at some of Japan's leading trading companies are facing salary cuts of between 5 per cent and 10 per cent after their companies yesterday reported sharp falls in profits for the first half of the financial year.

The downturn in the domestic economy was the main reason for the falls in pre-tax profits which ranged from 25.6 per cent at Mitsubishi and 33.7 per cent at Sumitomo.

All the trading houses suffered large falls in the value of their securities investments held by special trusts. The houses' finances are a broad reflection of the state of the Japanese economy as well as its trade flows.

• Mitsubishi's pre-tax profits

fell by more than a quarter to Y31bn (\$249m) for the six months to the end of September on a 3.3 per cent fall in sales to Y751bn.

The deterioration in Mitsubishi's profits was mainly due to a continued rise in operating costs, which were up by 7 per cent. That was the main factor behind a 22 per cent fall operating profits to Y35bn. Earnings per share were Y8.11, down from Y14.4 a year earlier.

The Mitsubishi board yesterday decided to cut top executive salaries by an average of 10 per cent from the end of this month.

The decline in Mitsubishi's sales was most pronounced in Japan where the economic downturn prompted a 6.5 per cent fall in sales which account for about 46 per cent of the group's total sales. Fuel sales

rose by 8.9 per cent but chemicals fell by 10.7 per cent and machinery by 8.3 per cent.

• Sumitomo reported a 33 per cent fall in pre-tax profits to Y23bn on sales of Y8.595bn, down 9.1 per cent from the first half of last year.

The group's operating profits were almost halved to Y18bn because, despite the fall in sales, its general and administrative expenses rose by 7 per cent mainly due to higher labour costs.

Machinery sales were 3.3 per cent up, but sales of metal and steel fell 22 per cent while chemicals and fuel were 9.5 per cent down and textiles 9.2 per cent lower.

Sumitomo sharply increased its provisions for doubtful receivables from Y185m to Y65m, while its valuation loss on securities holdings rose

from Y765m last year to Y1.2bn, reflecting the slump in the Tokyo stock market.

Income from the sales of securities fell by Y1.6bn to Y3.9bn, while cash on deposit was cut by Y40m to Y94m.

• Mitsui's pre-tax profits fell by 21.4 per cent to Y25bn on a 7.5 per cent fall in sales to Y7.71bn. Operating profits were 24 per cent down to Y2.6bn.

• Marubeni blamed the appreciation of the yen against the US dollar for an erosion of its profit margins on its foreign trade related businesses. Its pre-tax profits fell by 32.6 per cent to Y15bn on a 4.5 per cent fall in sales to Y8.223bn.

• Itochu, formerly C. Itoh, is cutting executive salaries by between 5 per cent and 10 per cent from next month despite reporting an 11.5 per cent

increase in first half pre-tax profits to Y22bn on a 3.1 per cent decline in sales to Y9.201bn.

The profit increase was mainly due to increased dividends from foreign subsidiaries and non-operating financial income.

Sales in the metals division fell by 22 per cent as the company cut back on gold trading. Itochu said it had made an appraisal loss of about Y90bn on its securities investments, worth about 30 per cent of its outstanding securities investments.

• Nissho Iwai's pre-tax profits fell by 15.7 per cent to Y8bn on a 5.5 per cent drop in sales to Y8.198bn. Nissho Iwai said it made an appraisal loss of about Y20bn on its securities holdings which are worth about Y220bn.

• Mitsubishi Iwai's pre-tax profits fell by 15.7 per cent to Y8bn on a 5.5 per cent drop in sales to Y8.198bn. Nissho Iwai said it made an appraisal loss of about Y20bn on its securities holdings which are worth about Y220bn.

STÁTNÍ BANKA ČESKOSLOVENSKÁ
Prague, Czech and Slovak Federal Republic
(the "Bank")**NOTICE OF A MEETING**

of the holders of the

U.S.\$200,000,000

9 PER CENT. NOTES DUE 1994

of the Bank

(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN to the holders of the Notes in both bearer and registered form that a Meeting of the Noteholders convened by the Bank will be held at the offices of Nomura International plc, 1 St Martin's-le-Grand, London EC1A 4NP on Monday, 14th December, 1992 at 3 p.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal, Registrar and Transfer Agency Agreement dated 29th November, 1991 (the "Agency Agreement") made between the Bank, Citibank, N.A. (the "Fiscal Agent") and the other agents named therein, pursuant to which the Notes were issued.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders of these of the U.S.\$200,000,000 9 per cent. Notes due 1994 of Státní Banks Československá (the "Notes" and the "Bank" respectively) hereby:

(1) assents, conditionally as specified below, to the assumption by the Czech Republic and the Slovak Republic ("the successors"), by deed poll (the "Deed Poll") or substantially in the form contained in Schedule 5 to the Explanatory Statement (as defined below), of liability, jointly and severally with each other and with the Bank, for the due and punctual payment of the principal of and interest on the Notes and the performance of the obligations imposed on the Bank under the Notes and the Coupons pertaining to the Notes in bearer form (the "Coupons"), as modified by sub-paragraph (3) below;

(2) assents, conditionally as specified below, to the release of the Bank from its liability in respect of the Notes and the Coupons, such release to take effect upon the dissolution of the Bank at any time after, but in no event earlier than, the execution by the successors of the Deed Poll as legal, valid and binding obligations of the successors;

(3) assents, conditionally as specified below, to the modifications of the Terms and Conditions of the Notes (as printed on the reverse thereof and in Part III of Schedule 2 to the Agency Agreement) in the manner envisaged in the Deed Poll; and

(4) sanctions, conditionally as specified below, every abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the Coupons against the Bank and the successors involved, or resulting from the operation of the preceding sub-paragraphs of this Resolution.

The assumption referred to in sub-paragraph (1) above is conditional upon the successors having first obtained all necessary governmental and regulatory approvals and consents necessary for the assumption of the obligations and liabilities of a principal debtor under the Notes and the Coupons. The Resolution is conditional upon the delivery to Citibank, N.A., in London of legal opinions addressed to the Noteholders in or substantially in the form set out in Schedule 6 to the Explanatory Statement dated 29th November, 1992 prepared by the Bank (the "Explanatory Statement").

The modifications specified in the Extraordinary Resolution are required to enable the Notes to remain outstanding, as obligations of the successors, in the event of the dissolution of the Bank following the division of the Czech and Slovak Federal Republic on 1st January, 1993.

Full details of the background to, and the reasons for, the proposed modifications and the Extraordinary Resolution are contained in the Explanatory Statement referred to in the Extraordinary Resolution, copies of which are available for collection by Noteholders at the specified offices of the Paying Agents and the Registrar set out below.

The Bank considers that the proposed modifications contained in the Extraordinary Resolution set out above are fair and reasonable in the circumstances and, accordingly, the Bank recommends all Noteholders to vote in favour of the Extraordinary Resolution.

In addition to the proposal to be put to Noteholders set out above, the Bank has offered to purchase any outstanding Notes prior to the date of the Meeting. The terms of the Bank's purchase offer are set out in the Notice of Purchase Offer below.

The notice of the meeting of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in paragraph 2 of "Voting and Quorum" below.

Copies of the Agency Agreement (including the Terms and Conditions of the Notes referred to in the Extraordinary Resolution set out above) and of certain other relevant documents will be available for inspection by Noteholders at the specified offices of the Paying Agents and the Registrar set out below.

VOTING AND QUORUM

1. (a) Bearer Notes

A holder of one or more Notes in bearer form ("Bearer Notes") wishing to attend and vote at the Meeting in person must produce at the Meeting either the Bearer Notes, or valid voting certificates issued by a Paying Agent relating to the Bearer Notes, in respect of which he wishes to vote.

A holder of one or more Bearer Notes not wishing to attend and vote at the Meeting in person may either deliver his Bearer Notes (or voting certificate(s)) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified offices of the Paying Agents and the Registrar set out below) instructing a Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with his instructions.

Bearer Notes may be deposited with any Paying Agent or to the satisfaction of such Paying Agent) held to its order or under its control by Euroclear or Cedel or any other person approved by such Paying Agent, for the purpose of obtaining voting certificates or, until the time being 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter, giving voting instructions in respect of the relevant Meeting. Any Bearer Notes so deposited or held will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or, if applicable, any adjourned such meeting).

(b) Registered Notes

A holder of one or more Notes in registered form ("Registered Notes") wishing to attend and vote at the Meeting in person may do so whether or not he produces at the Meeting the Registered Note(s) of which he is the registered holder.

A holder of Registered Notes not wishing to attend and vote at the Meeting in person may by a form of proxy (obtainable from the specified offices of the Paying Agents and the Registrar set out below) signed by the holder or, in the case of a holder who is a corporation, executed by its corporate officer or by its attorney on its behalf or by a duly authorized representative of the corporation, appoint another person to attend on his behalf or to act on his behalf in connection with the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter, giving voting instructions in respect of the relevant Meeting. To be valid a form of proxy (together with the power of attorney (if any) or other authority under which it was executed or a notarially certified copy of such power or authority) must be delivered to the specified office of any Paying Agent (being the place approved by the Fiscal Agent for this purpose) not less than 24 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting).

Any holder of Registered Notes which is a corporation may by resolution of its directors or other governing body authorise a person to act as a representative ("representative") in connection with the Meeting (or, if applicable, any adjourned such Meeting).

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies or representatives whatever the principal amount of the Notes so held or represented by them.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Bank or by one or more persons present holding Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one-fifth part of the principal amount of the Notes then outstanding. On a show of hands every person who is present in person and produces a Bearer Note or voting certificate or is a holder of Registered Notes or is a proxy or representative shall have one vote. On a proxy or person who is so present shall have one vote in respect of each U.S.\$100 of Notes or voting certificates or being proxies or representatives whichever the principal amount of the Notes so held or represented by them.

4. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-fourths of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at such meeting and whether or not voting, and upon all holders of Coupons attending to the Bearer Notes.

Noteholders whose Notes are held by Euroclear or Cedel should contact the following for further information: Euroclear: Custody Operations Department (telephone Brussels (322) 5191211, telex 61026); Cedel: Corporate Action Department (telephone Luxembourg (352) 448 621, telex 2791).

NOTICE OF PURCHASE OFFER

NOTICE IS HEREBY GIVEN that the Bank will purchase any or all of the principal amount now outstanding of the Notes in registered form (as specified below) during the period from and including 20th November, 1992 until no later than 12.00 midday (London time) on Friday, 11th December, 1992. Payment for Notes so presented will be made by the Bank on 18th December, 1992 at a price of 100 per cent. of their principal amount plus interest accrued to (but excluding) that date.

The Bank's offer to purchase Notes is subject to the condition that Notes in bearer form must be presented together with all interest coupons maturing after 18th December, 1992. Holders of Notes presented for purchase will not be entitled to attend or vote at the Meeting on 14th December, 1992 (and any adjournment thereof) convened by the Noteholders and on the "Deed Poll" (see below).

The Bank will make available an Explanatory Statement in connection with the December Meeting which contains, and refers to, additional information in relation to the Bank, the actions proposed at the December Meeting and the reasons for those actions. Such information may be relevant to Noteholders in deciding whether or not to accept the Bank's offer contained herein. Such information is available upon request at the specified office of any of the Paying Agents and the Registrar.

The holder of a Bearer Note wishing to accept this purchase offer should complete and deliver to the specified office of any Paying Agent, not later than 12.00 midday (London time) on Friday, 11th December, 1992, an Acceptance Form in the form obtainable from any Paying Agent together with the relevant Note and all unmatured coupons attaching thereto.

In the case of a Note held in Euroclear or Cedel, the Noteholder may make arrangements with the relevant Paying Agent and Euroclear or Cedel, as the case may be, Cedel for the relevant Note to be delivered through the relevant clearing system to the order or satisfaction of the Paying Agent.

The registered holder(s) of a Registered Note wishing to accept this purchase offer should complete and deliver to the specified office of the Registrar, not later than 12.00 midday (London time) on Friday, 11th December, 1992, an Acceptance Form in the form obtainable from any Paying Agent or the Registrar together with the relevant Registered Note.

An Acceptance Form, once delivered, shall not be revocable without the consent of the Bank.

Terms used in this Notice and not otherwise defined have the meanings ascribed to them in the Notes.

The specified offices of the Paying Agents and the Registrar are set out below.

Any questions with regard to this Notice should be directed to Issuer Services at Citibank, N.A. in London Tel: (44-71) 234 5224; Facsimile: (44-71) 234 5276.

FISCAL AND PRINCIPAL PAYING AGENT

Citibank, N.A.
Citibank House,
336 Strand,
London WC2R 1HB

OTHER PAYING AGENTS

Citibank (Luxembourg) S.A.
15 Avenue Marie-Thérèse,
L-2122 Luxembourg

REGISTRAR
Citibank, N.A.,
6th Floor,
111 Wall Street,
New York, N.Y. 10043

Citibank (Switzerland)
Bahnhofstrasse 63
CH-8021 Zurich

These Notices are given by: STÁTNÍ BANKA ČESKOSLOVENSKÁ, Na prikope 28, 110 03 Prague 1

Dated: 20th November, 1992

FINANCIAL BRAIN GAME 1992

Cafe Royal, London
1st December 1992

An exciting gala dinner and quiz evening hosted by TV presenter Carol Vorderman. £1,000 for a table of 10.

All profits in support of ACTIONAID's work with some of the world's poorest children, families & communities.

If you or your company is keen not to miss out, call Susannah Penk on 071 281 4101

**TO THE HOLDERS OF****Home Shopping Network, Inc.'s****5 1/2% Convertible Subordinated Notes due 1997****NOTICE OF DIVIDEND**

NOTICE IS HEREBY GIVEN pursuant to Section 12(a) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), that the holders of the 5 1/2% Convertible Subordinated Notes due 1997 (the "Notes") of Home Shopping Network, Inc. ("HSN") and Bankers Trust Company, Inc. ("Trustee"), (the "Trustee"), dated April 22, 1992 (the "Notes") will receive a cash dividend of \$137.08 per US\$10,000 note.

The dividend will be paid on November 20, 1992 (the "Record Date").

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INTERNATIONAL COMPANIES AND FINANCE

AT&T to float 15% of its leasing and finance unit

By Patrick Harverson
in New York

AT&T, the US telecommunications company, announced yesterday that it was planning to float 15 per cent of AT&T Capital, its equipment leasing and finance subsidiary, as part of a broader strategy to give the unit greater financial independence from the parent group.

A new subsidiary, which will keep the name AT&T Capital, will be established to take over most of the unit's \$7bn in assets, although it's leverage lease and project finance assets will remain with AT&T for tax reasons. A public stock offering of about 15 per cent of the new unit is planned for next year, depending on market conditions.

AT&T said the changes,

which have been under discussion for several months, were designed to let AT&T concentrate more on its core businesses of communications and computing, yet still retain a substantial interest in AT&T Capital. The unit reported revenues of \$1bn last year (out of the total \$63bn reported by AT&T), and has 600,000 customer accounts and 2,400 employees, making it one of the largest leasing and finance companies in the US.

AT&T said that the partial spin-off of the subsidiary would also give the telecommunications company greater financing flexibility because future debt issued by the new unit would not be supported by AT&T. However, it would continue to guarantee the unit's current outstanding debt, which included \$2.7bn.

Mr Thomas Wajner, AT&T Capital's president and chief executive, said yesterday: "We will have greater control of our destiny, financing and the markets we pursue. At the same time, we still maintain the AT&T relationship and brand name."

AT&T Capital was formed in 1982 to help market AT&T's business systems. In its present form the company is made up of 10 separate units that finance both AT&T and non-AT&T equipment, including computer systems and cars and telecommunications, office manufacturing and general business equipment.

News of the changes at AT&T Capital helped lift AT&T shares 3% to 47% in early trading on the New York Stock Exchange.

Morgan Stanley slips to \$110.6m

By Patrick Harverson

MORGAN Stanley, the Wall Street securities house, yesterday reported a slight fall in third-quarter net income to \$110.6m, compared with the \$121.8m earned in the same period last year.

The results were in line with market forecasts, so Morgan Stanley shares were virtually unchanged at \$33 on the New York Stock Exchange.

The company blamed the drop in earnings on a contraction in new equity offerings, and lower revenues from its principal trading business.

The figures would have been more disappointing but for the \$1.6m gain Morgan Stanley earned from the sale of its stake in MS/Essen Holdings, and an increase in the carrying value of its investment in Kohl's Corporation.

Although the company enjoyed strong results from foreign exchange, swaps and government bond trading some of the gains were undoubtedly linked to the turmoil in European bond and currency markets during September; they were more than offset by poor results in equity and commodities trading.

Overall, Morgan Stanley's earnings from trading for its own account dropped 15.6 per cent in the quarter to \$300.8m.

Investment banking revenues declined 6 per cent to \$182.3m, a reflection of the fall-off in equity securities offerings and merger activity.

The volume of debt issuance rose during the period, thanks to continued healthy demand from US and foreign corporations for bond underwriting services.

Commission revenues were down 3 per cent to \$65.6m, but earnings from asset management (a fast-growing area for most Wall Street firms) and administration services advanced by 8 per cent, profits fell by 11 per cent.

Campbell said sales of its Pepperidge Farm premium cookies remained soft, because of the recession, and that the earnings dip reflected higher marketing spending on new Pepperidge Farm and Delacre products.

Dell said domestic sales increased 138 per cent to \$377m. International sales surged 172 per cent to \$195m, compared with the year-ago quarter.

For the first nine months, sales increased 181 per cent to \$1.4bn, against \$604m last time. Net income was \$70m, or \$1.81 a share, 98 per cent higher.

has slashed profit margins throughout the PC industry. "We are overwhelmed with demand, so if we lowered prices it would be like a self-inflicted wound," he said.

Dell said domestic sales increased 138 per cent to \$377m. International sales surged 172 per cent to \$195m, compared with the year-ago quarter.

For the first nine months, sales increased 181 per cent to \$1.4bn, against \$604m last time. Net income was \$70m, or \$1.81 a share, 98 per cent higher.

Dell Computer surges 120%

By Louise Kehoe
in San Francisco

DELL Computer's share price rose \$24 to \$36 at mid-day yesterday, when the US personal computer company reported what one Wall Street analyst called truly amazing third-quarter results.

The Texas-based PC company, which sells computers by mail order and over the phone, reported that sales shot up 149 per cent to \$70m from \$28.3m in the same period last year. Net earnings were \$2.6m, or 72

cents a share, up 120 per cent from \$13m or 35 cents in the third quarter last year.

This marks the third consecutive quarter in which Dell's revenues have increased by over 100 per cent. "We are continuing to gain market share from both larger and smaller competitors," said Mr Michael Dell, chairman and chief executive. "It is clear customers are not necessarily looking for the lowest price, but for the best overall value."

Recently, Mr Dell predicted an end to the price war that

division, the gains were 16 per cent and 28 per cent respectively.

However, although sales in the biscuit and bakery arm advanced by 8 per cent, profits fell by 11 per cent.

Campbell said sales of its

Pepperidge Farm premium cookies remained soft, because of the recession, and that the earnings dip reflected higher marketing spending on new Pepperidge Farm and Delacre products.

Campbell Soup improves 21%

By Nikki Tait in New York

CAMPBELL SOUP, the US food company which is embroiled in a takeover bid for Arnotts, the Australian cookie and cracker group, yesterday reported a 21 per cent increase in first-quarter profits, at \$15.6m, after tax.

The improvement was scored on sales up by 10 per cent overall, at \$17bn, and translated into earnings per share of 62 cents, compared with 51 cents

in the same period of last year.

Mr David Johnson, Campbell's chief executive, claimed the advance reflected a push for markets and increased market shares, with advertising expenditure increasing by 24 per cent.

In its core North and South America markets, Campbell saw a 9 per cent sales increase, with a 15 per cent improvement in earnings, and in the much smaller Europe/Asia

division, the gains were 16 per cent and 28 per cent respectively.

However, although sales in the biscuit and bakery arm advanced by 8 per cent, profits fell by 11 per cent.

Campbell said sales of its

Pepperidge Farm premium cookies remained soft, because of the recession, and that the earnings dip reflected higher marketing spending on new Pepperidge Farm and Delacre products.

Telecommunications Privatisation in Greece

The Government of the Hellenic Republic announces the commencement of a competitive process to select experienced telephone operators with appropriate financial resources to acquire a 35% stake in the Hellenic Telecommunications Organisation S.A. (OTE) and to undertake its management and modernisation.

The Government of the Hellenic Republic has engaged members of the CS First Boston Group to act as its exclusive financial advisor in all aspects of the selection process.

Telephone operators interested in the OTE privatisation are invited to submit expressions of interest, individually or as a consortium, and annual reports for the last two years to either of the following two addresses by December 11, 1992:

London

Bertrand Kan
Credit Suisse First Boston Limited,*
Member of SPA
2a Great Titchfield Street
London W1P 7AJ
Tel: (44) 71-322-5164
Fax: (44) 71-322-4972

New York

Scott W. Seaton
The First Boston Corporation*
Park Avenue Plaza
55 East 52nd Street
New York, NY 10055
Tel: (1) 212-909-3178
Fax: (1) 212-593-9079

As soon as possible thereafter the CS First Boston Group will distribute to selected parties a Confidential Information Memorandum providing a description of OTE's operations and financial performance as well as certain other relevant information.

*members of the

CS FIRST BOSTON GROUP

Prices for electricity determined for the purposes of the electricity pooling and transmission of electricity between Great Britain and Northern Ireland. For the Period for Trading from 1st April 1992 to 31st March 1993.					
Period	Point of delivery				
0000	15.54	17.71	17.71	17.71	17.71
0100	22.52	17.67	17.67	17.67	17.67
0200	22.52	18.05	18.05	18.05	18.05
0300	21.25	18.05	18.05	18.05	18.05
0400	22.52	20.21	20.21	20.21	20.21
0500	22.52	20.21	20.21	20.21	20.21
0600	22.52	20.21	20.21	20.21	20.21
0700	22.52	20.21	20.21	20.21	20.21
0800	22.52	20.21	20.21	20.21	20.21
0900	22.52	20.21	20.21	20.21	20.21
1000	22.52	20.21	20.21	20.21	20.21
1100	22.52	20.21	20.21	20.21	20.21
1200	22.52	20.21	20.21	20.21	20.21
1300	22.52	20.21	20.21	20.21	20.21
1400	22.52	20.21	20.21	20.21	20.21
1500	22.52	20.21	20.21	20.21	20.21
1600	22.52	20.21	20.21	20.21	20.21
1700	22.52	20.21	20.21	20.21	20.21
1800	22.52	20.21	20.21	20.21	20.21
1900	22.52	20.21	20.21	20.21	20.21
2000	22.52	20.21	20.21	20.21	20.21
2100	22.52	20.21	20.21	20.21	20.21
2200	22.52	20.21	20.21	20.21	20.21
2300	22.52	20.21	20.21	20.21	20.21
2400	22.52	20.21	20.21	20.21	20.21
2500	22.52	20.21	20.21	20.21	20.21
2600	22.52	20.21	20.21	20.21	20.21
2700	22.52	20.21	20.21	20.21	20.21
2800	22.52	20.21	20.21	20.21	20.21
2900	22.52	20.21	20.21	20.21	20.21
3000	22.52	20.21	20.21	20.21	20.21
3100	22.52	20.21	20.21	20.21	20.21
3200	22.52	20.21	20.21	20.21	20.21
3300	22.52	20.21	20.21	20.21	20.21
3400	22.52	20.21	20.21	20.21	20.21
3500	22.52	20.21	20.21	20.21	20.21
3600	22.52	20.21	20.21	20.21	20.21
3700	22.52	20.21	20.21	20.21	20.21
3800	22.52	20.21	20.21	20.21	20.21
3900	22.52	20.21	20.21	20.21	20.21
4000	22.52	20.21	20.21	20.21	20.21
4100	22.52	20.21	20.21	20.21	20.21
4200	22.52	20.21	20.21	20.21	20.21
4300	22.52	20.21	20.21	20.21	20.21
4400	22.52	20.21	20.21	20.21	20.21
4500	22.52	20.21	20.21	20.21	20.21
4600	22.52	20.21	20.21	20.21	20.21
4700	22.52	20.21	20.21	20.21	20.21
4800	22.52	20.21	20.21	20.21	20.21
4900	22.52	20.21	20.21	20.21	20.21
5000					

INTERNATIONAL COMPANIES AND FINANCE

Shimuzu expects Y20bn costs for rationalisation

By Charles Leadbeater
in Tokyo

SHIMUZU, the leading Japanese construction group yesterday disclosed its withdrawal from Australian and European markets this year will cost it more than Y20bn (\$160.8m).

Earlier this autumn Shimuzu announced it was rationalising its overseas operations, which it invested in during the late 1980s, including closing its UK operations.

Shimuzu's sudden withdrawal, a rare retreat from overseas markets for a Japanese company, shocked many other Japanese construction companies which are seeking to cut costs in the face of a sustained downturn in the country's economy.

Shimuzu said its after-tax profits would for the year to next March would be cut by 55 per cent to Y30bn to cover the costs of liquidating subsidiaries in Europe and Australia.

The company reported a 10 per cent fall in pre-tax profits to Y50bn for the first half to September, on a 17 per cent increase in sales to Y20bn.

The company blamed a large share of the profits fall on lower interest rates falling its return on investments. It also recorded substantial appraisal loss on its securities holdings.

Shimuzu's order intake fell by 19 per cent to Y1.15bn. Its investment programme will be cut by over 20 per cent from its original plans to about Y20bn.

Executives said the govern-

ment's public works programme, expanded to stimulate the flagging economy, was creating strong demand for civil engineering projects.

However, this was more than offset by a sharp fall in orders from the private sector.

• Kajima, the construction group, reported a sharp increase in bad debts and a cut in interest income was the main reason for a 2.8 per cent cut in first-half pre-tax profits to Y38bn. The company recorded a Y2.3bn deficit on its balance of financial items, after recording a Y5.1bn surplus in financial income in the same period last year.

Kajima's sales, in the six months to end-September rose by 25 per cent to Y90.7bn. But its new order intake dropped by 21 per cent to Y1.06bn.

The company warned that in the second half profits would be weighed down by a swelling deficit on financial items and low profit margins on large projects.

• Taisei, the Tokyo-based general contractor, reported a 18.4 per cent rise in first-half pre-tax profits to Y46bn, on a 21 per cent increase in sales to Y88.6bn. However, new order intake fell by 21 per cent to Y1.05bn.

• Obayashi, reported a 26 per cent rise in first-half pre-tax profits to Y16.6bn, mainly a reflection of its relatively low profits during the same period the year before.

Public sector demand was the main reason for a 4.5 per cent increase in sales to Y62.6bn.

Executives said the govern-

A besieged industry draws up plans for survival

Japanese houses have stopped hoping for a rapid return to the free-spending of the late 1980s, writes Robert Thomson

Daiwa Securities announced a net profit of zero for the first six months of 1992, cut its graduate intake by 40 per cent and launched a campaign for staff to "Do My Best" in encouraging investors to use the broker's services.

The reforms at Daiwa, one of the big four Japanese securities houses which has just closed three sales offices, reflects the upheaval in a securities industry which has begun to give up hopes for a rapid return to the free-spending days of the late 1980s.

Instead, the pressure for branch closures and mergers of brokers intensifies with each trading day.

Daily turnover of stocks on the Tokyo exchange this month is an average 150m, far below the 450m that marks whether most brokers make a profit or loss.

In explaining the industry's plight, brokers agree they badly miscalculated in the late 1980s, when daily stock turnover was an average 1.02bn. The financial bubble was pumped ever larger, and brokers concluded that the biggest problem was expanding rapidly enough to keep pace with the irresistible demand.

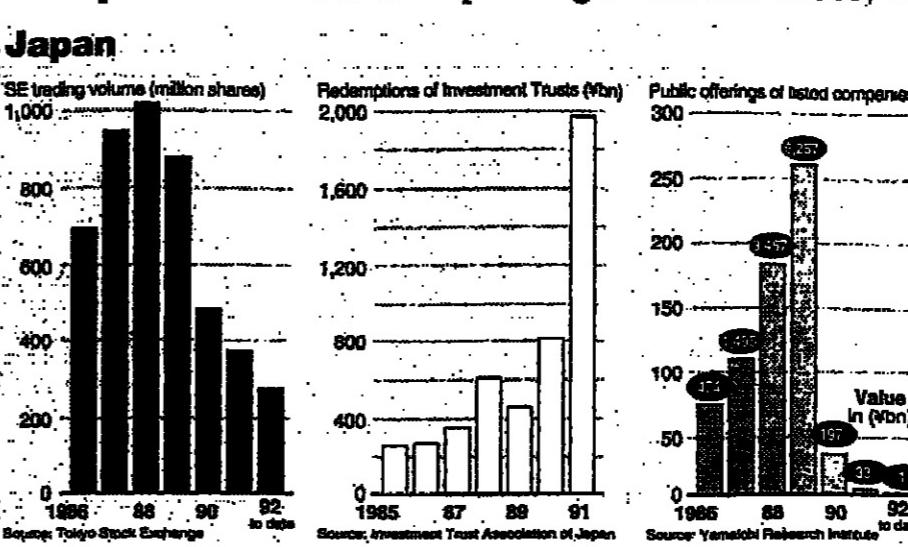
• In the four years until the market peaked in December 1989, personnel at Japanese brokers rose by 41.6 per cent. Desperate to open new branches, but restricted by the Ministry of Finance, the brokers turned to now unprofitable sub-branches or "boutiques" in shopping malls, train stations and department stores - these were limited in products offered but still required heavy outlays in computer systems and rent.

Applications for full branches rose as rapidly as the Nikkei index - Kankaku had nine approved by the ministry that will not open - and were still being filed when the market began a "temporary readjustment". Three years later, the brokers' most important sources of income are still evaluating and their resources are being exhausted.

A telling sign of the brokers' income shortage is the turnaround in public share offerings.

In 1989, there were 261 public offerings which raised a total of Y6.257bn - so for this year, two companies have raised Y1.25bn, and no public offerings were made during the fiscal first half from April to September.

Stock and bond commissions, down 30 per cent in the first half, account for about 80 per cent of income at the big four brokers, Nomura, Daiwa, Nikko and Yamachii. At the 10 second-tier companies, which reported first-half losses ranging from Y3.8bn to Y18.5bn, commissions account for around 80 per cent of revenue



Sources: Investment Trust Association of Japan; Source: Yamaichi Research Institute

and as much as 85 per cent. Brokers had hoped that a revival of the corporate bond market would increase earnings. New issues rose from 33 in the second half last year to 40 in the first half, but the market is still heavily regulated.

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and as much as 85 per cent.

Individual investors are also shunning the market because scandals last year raised doubts about the integrity of leading brokers, which admitted to compensating corporate investors for stock losses. The TSS insists that the industry has reformed, but brokers announced two weeks ago that they compensated clients even after the spate of confessions, apologies and resignations last summer.

In an attempt to stir interest in stocks, the TSE and finance ministry have urged industrial companies to increase their dividend payments, and discussed a relaxation of limits on employee share ownership programmes, but the Nikkei market average was unmoved.

Mr Yukio Aida, chairman of Nomura Securities, said: "These are very difficult times," and companies are restructuring for "survival".

Cheaper funding lifts Orix

ORIX, the leading Japanese leasing company, reported a 6.4 per cent increase in net income to Y10.2bn (\$80.5m), largely a reflection of tighter credit screening of clients to reduce risks of bad debts and cheaper funding as a result of cuts in Japan's official discount rate, writes Charles Leadbeater.

The Orix group is one of Japan's top non-banks, which

Yasuda in Paine Webber share sale

By Ray Bradford in Tokyo

YASUDA Mutual Life Insurance of Japan has halved its investment in a capital tie-up with Paine Webber to \$150m and sold Paine Webber 1.7m shares at the request of the US brokerage, Reuter reports from Tokyo.

The group's revenues were about 15 per cent down at Y15.8bn for the six months to end-September.

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COMPANY NEWS: UK

Storehouse returns to black

By Maggie Urry

STRONG SALES growth and higher gross margins returned Storehouse to profit in the 28 weeks to October 10.

The slimmed-down group, which includes the BHS and Mothercare chains, made a pretax profit of £3.1m, a £17m turnaround from the £13.5m loss in the previous first half.

Mr Ian Ray Davison, chairman, said: "We remain confident that our underlying trading performance will show a significant improvement for the year as a whole".

The profit news surprised the stock market, which had been expecting a break-even position, and pushed the shares higher. They settled back to show a 1p gain on the day at 188p. The share price has risen from a low of 85p last December.

Mr David Dworkin, chief executive, said Storehouse had been transformed from a financial holding company to a focused retailer. Trading conditions were still tough, but Storehouse could now achieve "real and consistent growth".

Group sales rose from £57.3m to £61.7m. Sales in the two main chains rose by 10 per cent on a comparable store basis, without any gain from price increases. BHS made an operating profit of £10.5m, against a £1m loss previously, while Mothercare turned a £2.5m deficit into a £1.7m profit.

The results were held back by losses of £7.8m from Richards, Habitat and Blazer. The first two chains have since been sold and the disposal of Blazer is planned.



David Dworkin: reflecting on a transformation from holding company to retailer

Associate income fell to £1.8m (£2.6m) due to the timing of sales in the property joint venture. Mr Dworkin said the associate contribution for the year should match last year's £4.9m.

Interest took £3.1m, against a £600,000 gain previously. But the group is due to receive cash totalling £100m from the Richards and Habitat disposals, which should give it net cash by the year end.

At the half-year stage net debt stood at £20.5m (£22m), although this is a seasonal

peak for borrowings in the run up to Christmas.

There was a net charge below the line of £20.4m relating to the disposals, and after a maintained interim dividend of 2.5p, there was a net loss of £27m. Earnings per share were 0.5p (2.3p deficit).

COMMENT

The Storehouse recovery is well and truly underway. There is now a momentum to sales which should carry on even as BHS comes up against tougher comparisons. Margin

improvements may slow as the emphasis on value-for-money increases, though the reduction in mark downs is encouraging. Much of the immediate recovery is in the share price. With forecasts of £40m pre-tax for the current year (against £15.8m) and perhaps £65m next, the prospective p/e is up with events at about 28, up to 17. But the longer term potential is clear in the poor job BHS is still doing in many departments, while Mothercare is two years behind BHS in its revitalisation.

"Trading profits in the group's packaging division, particularly in the UK and Germany, have increasingly been severely affected by the deepening recession."

In the past, Blagden's high exposure to continental Europe had sheltered it from the downturn in the UK. "What is being seen is a deterioration in the European markets in general," Mr Levine said.

Because packaging was a business with high fixed costs, the 15 per cent drop in volumes had a significant impact, Mr Levine said. Packaging accounts for about 70 per cent of group sales and more of its profits.

The group had bucked the market trend in the first half and had been hit by recession particularly late in the cycle.

Blagden shares fall 59p after warning on core activity

By Richard Gourlay

SHARES in Blagden Industries, the packaging and chemicals group, plunged 59p to 144p yesterday after the company warned that its core packaging division would be hit in the second half.

Group pre-tax profit for the full year was "now expected to be significantly lower than the £11m achieved in 1991".

The balance sheet remained strong and trading at the chemical and protective equipment divisions had held up well. All product areas remained profitable, Blagden said.

The warning comes only three months after profit increases across the board were reported at the interim stage. Pre-tax profits for the six months to June 28 rose 11 per cent to £5m.

Mr Lance Levine, finance director, said a very poor September and October had followed a poor July and August, two months from which the company never drew any conclusions.

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CE Heath cuts dividend after decline to £8.9m

By Richard Lapper

CE HEATH, the insurance broker, has cut its interim dividend after announcing a fall in pre-tax profits from £12.3m to £9.5m for the six months to September 30, 1992.

The group was badly affected by the weakness of the dollar earlier this year, low interest rates and recession in the UK, which depressed demand for commercial insurance, explained Mr Michael Kier, chairman.

Earnings per share were 7.8p compared with 12.1p.

The interim dividend is reduced to 5p, compared with 7.5p last time.

Mr Kier said the "prudence dictated that the group pays a dividend which it can sustain from its operating cash flow."

He said the final dividend will not be less than 1p, making a total of 16p.

Income from brokerage fees and commissions rose to £51.2m (£46.1m), an increase of 11 per cent.

Computer services generated income of £20.6m (£18.7m). But expenses were also higher at £74.2m and investment and other income fell to £7m (£7.7m).

Mr Kier said London market non-marine broking, as well as UK corporate risks and wholesale operations had performed well, although lower business volumes had held back growth of UK retail operations.

He attributed the higher expenses to the cost of starting new broking operations, such as the group's US wholesale network, and the costs of new head office accommodation at Houndsditch.

Currency movements cost the group 1.2p.

After adjusting for these factors, brokerage increased by 14 per cent in underlying terms.

Profit from underwriting amounted to £4.2m (£3.9m).

COMMENT

After briefly dipping in early trading, Heath's share price

rose sharply yesterday to close at 308p, a response indicating that investors had already anticipated a cut in the dividend. The markets appear to be impressed by management's determined focus on the core broking business, whose prospects seem reasonably good, especially now that exchange rates are moving in the group's favour. Nevertheless, the UK recession, lower interest rates and the tightness of international reinsurance markets could damage brokerage growth, while underlying continuing exposure to aviation liability claims via its Australian underwriting subsidiary, is also perceived as risk. Even so, the group is well on the way to recording full-year pre-tax profits of at least £44m and earnings per share of about 22p. On yesterday's closing price that gives a prospective p/e of 14.

Health seems relatively good value, especially in comparison to its bigger rivals, Willis and Sedgwick, both of which are on ratings of over 17.

Wassall expects gearing to rise above 50% if bid is successful

By Roland Rudd

West and GE Capital may not want to force repayment. The shares can be redeemed from 1996.

Nonetheless, Wassall has "facilities in place" to repay the \$43m if it wins control of Evode. It also estimates that Evode has bank debt of about £35m.

If it wins control, Wassall expects its year end debt to increase to some £35m, representing gearing of more than 50 per cent. Wassall's bond covenants were forecast to fall to £20m.

Mr Andrew Simon, Evode's chairman, would not disclose the company's debt but said it had substantial borrowing facilities which were more than enough to fund its needs.

This brought a sharp rebuke from Mr Miller who asked: "Is it prudent for Evode to be borrowing more? How will they repay that debt?"

Mr Simon said: "I take grave exception that Wassall made no effort to contact me before the morning of the offer and then did not even ask for a meeting. We will not take this lying down."

Rodime in profit with \$1.7m

By James Buxton, Scottish Correspondent

RODIME, the disk drive pioneer which now concentrates on licensing its technology, has made its first pre-tax profit since its heyday in 1985.

It also said that on Wednesday it began litigation against Seagate Technology of the US, one of the world's leading disk drive makers, for "continuing wilful patent infringement" and unfair competition.

Rodime made a pre-tax profit of \$1.69m (£1.1m) in the year to September 30, against a restated pre-tax loss of \$22.4m in 1991. Net profit per share was 0.8 cents (16 cents loss).

Operating income fell from \$12.4m to \$8.68m. But provisions for investments and liabilities of subsidiaries fell from \$28.2m to \$6.6m. Interest took \$1.7m (£1.2m). Bank debt fell by \$14.5m, but the balance sheet at September 30 still showed net liabilities of \$25.68m (£28.3m).

Rodime's results were released this August at 21p after a year-long suspension. In recent weeks they have climbed to 7.5p and yesterday closed unchanged at the same price.

Rodime said it was disappointed with progress in licensing talks with "several large disk drive producers".

It wanted negotiated agreements, but would initiate further patent infringement actions if necessary.

Rodime has recovered \$12.5m of the \$16.9m it hoped to raise from asset disposals.

Mirror shares continue climb

By Raymond Snoddy

THE SHARE price of Mirror Group Newspapers continued its rise yesterday - up 5p on the day to 84p - amid growing City enthusiasm for the management changes that ushered in Mr David Montgomery as chief executive.

It is believed that more than 4m shares have changed hands. The main boost appears to have come from hopes that a cheaper way can be found to modernise printing operations at the Daily Record and Sunday Mail, MGNI's Scottish titles. Earlier this year the death of Mr Robert Maxwell Mr Talbot decided to strengthen management.

Immediately following the death of Mr Robert Maxwell Mr Talbot decided to strengthen management.

"I gradually formed that the view and the chairman (Sir Robert Clark) also formed that a better way can be found to realise the changes before the changes were announced," Mr Talbot said yesterday.

The bankers were concerned there should be no change in the political stance of the papers.

Mr Talbot and Sir Robert felt

new management would more likely take radical measures to cut costs and increase profitability than the existing team.

Talks have been held between Mr Montgomery and Lord Hollick, chief executive of MAI, about the possibility of a takeover. They continued after the administrator ruled out an early sale.

A number of alternatives were considered and rejected, including going to head-hunters. But Mr Talbot and Sir Robert decided that bringing in Mr Montgomery, the former Today editor, and Lord Hollick, as a non-executive director, was the best way forward.

"The Montgomery team was revealed to the lending banks less than a month before the changes were announced," Mr Talbot said yesterday.

The bankers were concerned there should be no change in the political stance of the papers.

It also warned that ICI might need to reappraise its dividend policy because of poor trading conditions.

In the first detailed analysis of the proposed demerger of ICI's pharmaceuticals, agrochemicals and specialities businesses, Mr Charles Lambert, chemicals analyst, valued the separate businesses at 850p per share. At current conditions ICI was worth 360p and Zeneca 500p.

The group would have to put most of its debt into Zeneca so the new ICI could generate sufficient cash flow to ensure its survival.

A share issue by Zeneca to clear the debt was a pre-requisite for the separation, Mr Lambert said. He thought this was most likely to be on a 1-for-4 basis, raising £1bn.

A demerged ICI had massive scope for recovery, said Mr Lambert. He reckoned that the

ICI may be forced to postpone Zeneca move

By Paul Abrahams

IMPERIAL Chemical Industries, the UK's biggest manufacturing company, may be forced to postpone the demerger of Zeneca, its biotechnology business, which was uncovered in 1993, posing a real problem for the demerger's timing.

However, he warned that market conditions suggested the new ICI's dividend would be uncovered in 1993, posing a real problem for the demerger's timing.

The report predicts that Zeneca's pre-tax profits would increase from £248m this year to £712m in 1995. However, Zeneca's pharmaceuticals business, which generates 75 per cent of its turnover, has a mature product portfolio. Its pipeline of new products was described as "somewhat lacklustre" and weighed towards the second half of the decade.

The pharmaceuticals division's turnover could increase from £1.59b in 1993 to £2.24b in 1995 and trading profits from £538m to £548m.

Sales of Toremifene, Zeneca's best-selling heart drug, are forecast to fall from £562m last year to £415m by 1995.

• Smithkline Beecham, the Anglo-American pharmaceuticals and consumer products group, yesterday acquired ICI's world-wide Cossord business for an undisclosed sum.

Touche Ross bids for Praxis

TOUCHE ROSS, the accountancy firm, yesterday launched a £6.5m offer for Praxis, the software development company, and claimed irrevocable undertakings from directors and some shareholders speaking for 74 per cent of the equity, writes Andrew Jack.

The offer document sent to shareholders yesterday sets a price of £1.1m per share and a related consideration for all options under the company's share save scheme.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - pending dividend	Total for year	Total last year
ACT	Int 1.76	Jan 6	1.5	-	4.5
Bristol Post	Int 4	Feb 1	3.75	-	11.5
Cable & Wireless	Int 4.75	Feb 28	4.25	-	13.25
Cater Allen	Int 7	Jan 4	6	-	26
Filofax	Int 0.5	Apr 2	nill	-	0.5
Forward Group	Int 1.3	Dec 31	1.1	-	2.5
Hewlett Packard	Int 5	Jan 7	2.5	-	22.75
Henderson Strategic	Int 1.4	Jan 22	1.4	1.4	8.3
Hogg Robinson	Int 2.6	Jan 15	2.5	-	10
Locker (These)	Int 0.35	Jan 4	0.35	-	1
Penna S	Int 3	Jan 14	1	-	2
Sheriff S	Int 1	Feb 4	0.75	2	1.5
Shires Inv	Int 4.25	Jan 29	4.2	-	18.4
Storehouse	Int 2.5	Feb 11	2.5	-	5
York Water</td					

COMPANY NEWS: UK

Bad debts hit National Australia's subsidiaries Yorkshire Bank down 40% in 'tough year'

By Matthew Currie

YORKSHIRE BANK, a subsidiary of National Australia Bank, yesterday reported a 40 per cent drop, from £107m to £64.8m, in pre-tax profit in the 12 months to September 30 following a steep rise in the provision for bad debt.

Mr David Knight, chief executive, said the bank had pulled through a tough year, but confidence last November that loan loss provisions would not rise significantly had proved misplaced.

The charge for bad debts jumped from £76.1m to £133.9m.

Mr Knight said: "There was a degree of optimism at the start of the year, but not only was there no recovery, conditions deteriorated. In addition, we felt the impact of the recess-

sion moving north."

However, he said the bank's retail business performed well, increasing its share of core markets and tightening its control of costs.

Total assets were £4.24bn (£4.41bn).

The cost/income ratio was 46.7 per cent, compared with 47.5 per cent, which Mr Knight said confirmed Yorkshire's position as a low cost operator.

The balance sheet remained strong with tier 1 and tier 2 capital at 6.8 per cent and 2.8 per cent of total assets respectively.

The bank's branch network continued to expand, with five new branches opened in King's Lynn, Cheltenham, Gloucester, Telford and Stevenage.

• Belfast-based Northern Bank, another subsidiary of National Australia, also suf-

fered an increase in bad debt provisions.

They amounted to £7.61m (£4.69m) but were described by Sir Desmond Lorimer, chairman, as "well below the norm for clearing banks in the British Isles".

There was an exceptional charge of £7.85m (£1.5m), to leave pre-tax profit down 26 per cent at £43.1m (£58.6m).

The exceptional charge covered a judgment in the Irish High Court in respect of a claim brought by a Norwegian bank, relating to a foreign trade transaction originating in 1986 in the Republic.

An appeal has been lodged.

"We are weathering the recession well," Sir Desmond added. "We have a dominant position in the market place, an asset book of sound quality and a strong capital position."

Penna up 18p as recovery continues

By Raymond Snoddy

SHARES IN PENNA, the holding company for the Sanders & Sidney outplacement consultancy, yesterday rose 18p to 224p as the company continued its recovery from last year's losses, writes Andrew Bolger.

Pre-tax profits were £1.03m in the six months to September 30, compared with a loss of £251,000 last time. Turnover rose from £3.25m to £5.42m.

The shares, one of the best performers on the USM last year fell from a peak of 328p to 80p after a profits warning in 1991.

"Last time I had no track record in running newspapers apart from the Daily Sport," Mr Sullivan said. The News and Echo, said. The News and Echo, had been reduced by 14 per cent, or

Early Xmas orders lift Filofax

A SIGNIFICANT increase in sales and improved gross margins lifted Filofax Group in the six months to September 30 1992.

Turnover rose to £6.16m (£4.81m) and pre-tax profit to £950,000 (£274,000). Mindful of that success and confident of strong trading through Christmas, directors declared an interim dividend of 0.5p.

Mr Robin Field, chief executive, said the group had achieved its objective of building on the improved performance in the second half of last year.

Sanders & Sidney, the executive employment counselling specialist, said there was a strong advance in all its offices and all sectors.

Mr Field said: "The outlook for Sanders & Sidney in the second half is encouraging.

Earnings per share were 13.9p (losses 3.9p). The interim dividend is 3p (1p). See Observer

Sullivan trying again for the Post

orthodox newspaper circulating in the north of England with a claimed circulation of about 70,000.

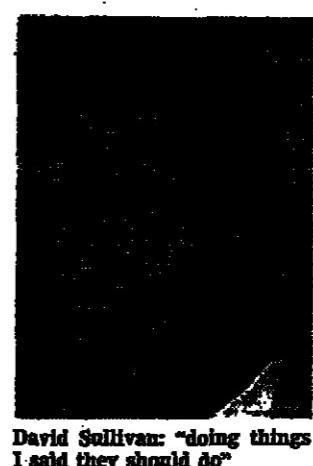
Mr Sullivan, an unwelcome 10 per cent shareholder in the Bristol Post, described the results as competent rather than brilliant.

"They are gradually doing things I said they should do such as closing down newsagents that weren't making money," he added.

Bristol Post's pre-tax profit increase, from £1.9m last year, was achieved despite static turnover of £17m in the main newspaper publishing business and a depressed advertising environment.

As the Bristol Post yesterday revealed a 44 per cent increase in pre-tax profits to £2.8m in the six months to September, Mr Sullivan said he planned to return to the MMC.

"Last time I had no track record in running newspapers apart from the Daily Sport," Mr Sullivan said. The News and Echo, had been reduced by 14 per cent, or



David Sullivan: "doing things I said they should do"

127. Further cost savings are likely at the group, which also runs a confectionery and newsagent shop and has distribution and property interests.

Mr Gay said changes were

NEWS DIGEST

Earnings per share rose to 7.95p (6.04p) and the interim dividend is lifted to 1p (2.75p).

Mr Mark Bellby, media analyst at stockbrokers SG Warburg, described the result as a solid set of figures. "It shows that newspaper groups can do pretty well despite the recession."

Earnings per share stood at 4.4p on the increased capital.

Henderson Strata net assets static

The net asset value of Henderson Strata Investments showed a marginal improvement - from 183.3p to 183.3p - over the 12 months to October 31.

The investment trust produced attributable revenue of £221,000, against £227,000, for earnings of 1.45p (1.56p) per share. The single distribution for the year is maintained at 1.4p.

M&G Recovery and M&G Income

Two new M&G funds have announced results and dividends.

At September 30 1992, M&G Recovery Investment Trust had a net asset value of 32.13p for capital shares and 47.32p for zero dividend preference shares.

The trust was launched in March. It paid an interim dividend of 0.85p in September and has now declared a further 0.85p towards meeting its forecast of a 3.75p total for the year ending March 31 1993.

Net revenue for the period to September 30 was £3.31m for earnings of 2.55p per share.

M&G Income Investment Trust, launched in October 1991, saw gross revenue reach £18.9m for the period ended October 31 1992.

Earnings per share were 5.3p and a fourth interim dividend of 1.3875p is declared to make 4.9125p.

Net asset value on October 31 for the capital shares was 50.06p and for the zero dividend preference shares 38.17p.

Correction

Sir Leslie Porter has retired from Tesco. In yesterday's story on LBC we referred to him as president of Tesco.

Redundancy costs cut Clydesdale

By James Buxton,
Scottish Correspondent

CLYDESDALE BANK, the Glasgow-based subsidiary of National Australia Bank, saw its pre-tax profits fall by 55m to £59m for the year to September 30.

Operating profit was 13 per cent higher at £67.4m (£54m), despite a jump from £23.9m to £37.4m in provisions for bad and doubtful debts.

The pre-tax figure was after exceptional charges of £8.4m to cover redundancy costs.

A year ago the bank, which was bought in 1987 from Midland Bank, began to shed 700 jobs at its Glasgow head office as new technology came into use.

Staff numbers have fallen by a total of 532 to a little less than 7,000, half through redundancies and the rest by natural wastage.

Sir David Nickson, who last December succeeded Sir Eric Yarrow as chairman, described the results as "not unsatisfactory" in the "worst worldwide economic recession since the 1930s".

But Mr Charles Love, who recently took over as chief executive from Mr Richard Cole-Hamilton, said he did not expect recovery in the Scottish economy until 1994. "There are no green shoots in Scotland," he said.

Mr Cole-Hamilton, who leaves the bank at the end of the year, said that bad debt provisions accounting for 0.8 per cent of total lending compared well with other banks. Clydesdale, which operates mainly in Scotland, had steered clear of problems in the

City of London, but "the recession has gone on too long for a lot of our customers in Scotland".

Staff costs rose by 1 per cent, while other costs went up by 4 per cent. The cost/income ratio was static at 67 per cent including the exceptional item, but fell to 64.5 per cent without it. Total assets grew 12 per cent to £55.7bn.

Mr Love, formerly chief executive of TSB Bank Scotland, said that he saw opportunities for the Clydesdale to "leverage in" lessons from the parent company.

He wanted to fill holes in the bank's coverage of the Scottish market by developing a greater presence in the east of the country. Its strengths at the moment are in the Glasgow area and around Aberdeen.

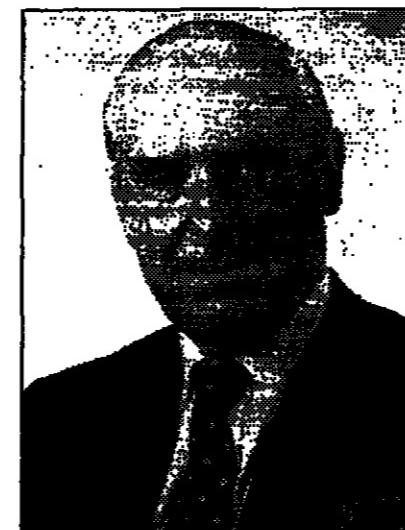
NAB results - Page 27

"Operating profit, before bad debts and exceptional items, has exceeded one hundred million pounds for the first time."

"My first year as Chairman of the Bank has coincided with the worst worldwide economic recession since the 1930s. Against this background it is not unsatisfactory to report profit before tax of £59.0m, slightly below the level achieved in the previous year.

The year ahead will not be easy but the Bank is well placed as a part of National Australia Bank Group to take advantage of its strong asset base, world class technology and professional management."

Sir David Nickson KBE, DL Chairman, Clydesdale Bank PLC



FINANCIAL HIGHLIGHTS

	1992	1991
	£m	£m
Operating profit before bad debts	104.7	92.7
Profit before exceptional item	67.5	64.0
Profit before taxation	59.0	64.0
Total assets	5,753.0	5,123.2
Shareholders' funds	377.3	367.7

Copies of the Annual Report and Accounts are available on request from the Corporate Affairs Department. Telephone 041 223 2554. Clydesdale Bank PLC, 30 St Vincent Place, Glasgow G1 2HL.

Clydesdale Bank PLC



GREAT PORTLAND ESTATES

1992 INTERIM RESULTS

	Half year to 30.9.92 £'000	Half year to 30.9.91 £'000	Year to 31.3.92 £'000
Income on ordinary activities before tax	16,239	17,523	33,910
Income on ordinary activities after tax	12,901	11,915	24,639
Earnings per share	5.6p	5.6p	11.2p
Dividend per share	3.4p	3.4p	10.0p

The results for the year ended 31.3.92 are abridged from the full accounts for that year, which have been filed with the Registrar of Companies and contain an unqualified audit report.

For a copy of the full Interim Report write to the Secretary, Knighton House, 56 Mortimer Street, London W1N 8BD.

Capacity to be cut by a sixth in response to fall in demand

By Andrew Taylor,
Construction Correspondent

BLUE CIRCLE Industries warned yesterday that the cost of closing down a sixth of its UK cement capacity would reduce its operating profits this year by £55m. More than 500 jobs are to be axed.

However, the company repeated its pledge to maintain total dividends at 11.25p for the year to December 31.

The move, in response to a big fall in demand for cement from the construction industry, was welcomed by brokers and the shares rose 2p to close at 17.7p.

The group said that the £58m closure provisions and a £20m UK property loss this year would be offset at the operating profit level by net sales proceeds of £44m, mostly from the disposal of the South African building materials business.

Previously the sale proceeds would have been included

Blue Circle cement cuts please City

below the line. Blue Circle said that the changed treatment was required under the new FRS 3 accounting standard introduced by the Accounting Standards Board at end of last month.

Brokers, following the announcement, reduced their forecasts for pre-tax profits this year from between £100m and £115m to between £60m and £80m.

Mr Keith Orrell-Jones, managing director, said his company planned to reduce its UK cement manufacturing capacity by 1.2m tonnes to 6.7m tonnes. It intends to close one kiln and mothball another at

its Northfleet Works in Kent. This would leave just one kiln working at the plant compared with six kilns 20 years ago.

The company is also closing 13 of its 23 UK cement distribution depots. It said that a total of 560 jobs would be lost, representing about a fifth of its current UK cement workforce.

Most of the jobs were expected to go through compulsory redundancy and would affect management as well as blue collar staff. Approaching half of the provision would be used to meet redundancy costs.

Blue Circle, which produces about half of all the cement

sold in the UK, blamed the recession in the construction industry for the cutbacks.

Mr Orrell-Jones said that construction output would not climb back to previous levels even when the market recovered.

Annual sales by UK cement manufacturers since 1989 had fallen by a third from 17.5m tonnes to a little less than 12m tonnes this year. This compared with an industry capacity, before the latest reduction, of more than 14m tonnes.

Mr Orrell-Jones said that the benefits of the rationalisation would start to show through in improved profits within a year



Keith Orrell-Jones output not expected to recover fully of it being implemented. See Lex

Cater Allen gets benefit from lower UK rates

By Richard Waters

CATER ALLEN yesterday became the latest discount house group to announce strong profits on the back of falling UK interest rates, though it continued to refuse to comment on whether it is discussing a takeover of rival Union Discount.

Outlining the group's plans, Mr James Barclay, chairman, said: "We're in the business of building on what we've already got... We don't want to over-diversify."

Hedge diversified into leasing and property in the 1980s has brought losses at Union Discount, culminating in news on Wednesday that it is discussing a possible takeover.

Mr Barclay refused to be drawn on whether absorbing a rival discount house would meet his objective of strengthening Cater's existing businesses. He added: "If Union Discount disappears, it would

Critchley debut with £25.4m tag

By Richard Gourlay

CRITCHLEY, the maker of electrical cable accessories will begin trading next Thursday with a market capitalisation of £25.4m.

SG Warburg Securities, the company's adviser, said yesterday it had placed 6.7m shares at 220p with a number of institutions and with some brokers for private clients.

The issue will raise £14.7m and leave Critchley with net cash of about £2m.

The pricing puts the group on a substantial discount to Bowthorpe and Volex, companies with which it is sometimes compared.

Critchley will come to the market at 14.4 times historic earnings, while on prospective earnings of 18p per share.

The shares will start with a multiple of 12.3.

This is based on forecasts of £2.8m pre-tax profits for the year.

The dividend yield, based on a notional net dividend, is 3.7 per cent.

Barrett founders lead £15m buy-out

By Andrew Bolger

THE CORE businesses of Henry Barrett Group, the Bradford-based company which went into receivership last week, have been sold in a management buy-out worth £15m.

A new company, Barrett Steel, has acquired the group's steel stockholding and steel buildings businesses, employing 450 people and still trading profitably, with a combined annual turnover of £22m.

Mr James Barrett and his brother, Richard, members of the group's founding family, will lead the buy-out, which has been backed by Granville Development Capital and Apax Partners.

The team is paying the receivers, Grant Thornton, £12m. The new company has been financed by £6m equity, £8m in term loans and a £3m working capital facility.

Mr Allan Griffiths, one of the receivers, said that as well as paying the purchase price, the new company would assume about £17m of the parent group's total debts of £40m-£45m.

ACT rise falls short of estimates

By Alan Cane

ACT, the acquisitive computing services company, announced interim pre-tax profits of £9.5m, up 25 per cent on last year but at the lower end of City expectations.

The shares fell 9p to 146p.

Turnover rose 37 per cent to £73.1m (£52.6m) in the six months to September 30. Earnings per share, however, were only 4 per cent ahead at 5.34p, reflecting the acquisition strategy. The interim dividend is raised to 1.75p (1.6p). Cash balances stood at £21.3m.

The outstanding performer among the new acquisitions was Kindle, the Irish financial software house, which turned in a profit contribution before tax of £4.3m.

The figure ensures that Kindle's directors will be paid an earn-out fee of £5.5m.

Mr Roger Foster, ACT chairman, said the earn-out payment meant the company had been acquired on a p/e of about 6.2: "It looks like the most outstanding acquisition we have done."

The two companies had been extensively marketed over the summer and received several bids, of which the existing management's was the highest.

The receivers soon hope to sell Lindapter, the group's special fastenings company, which was also kept out of receivership.

Touche Ross in Leeds acted as lead financial advisers to the management and Simpson Curtis were legal advisers. KPMG Peat Marwick gave financial advice to the investors and Evershed Hepworth and Chadwick were legal advisers.

Henry Barrett was floated in 1987 and undertook an aggressive diversification policy to reduce its dependence on steel. The buy-out team said the parent company's financial difficulties were due largely to the underperformance of these acquisitions.

Hogg Robinson slips to £10m in weak markets

By Angus Foster

corporate pensions and listed profits 6 per cent to £2.34m.

Net cash fell £1m to £29m and interest earnings were lower at £1.16m (£1.81m).

Earnings fell to 9.35p (10.03p) but the interim dividend is increased to 2.6p (2.5p).

● COMMENT Times obviously remain tough in travel. While price cutting on the high street grabs the headlines, the downturn in corporate travel budgets - initiated ahead of the Gulf war - is more damaging. Business travel will also be affected by sterling's fall in value. Companies will have another reason to stop executives upgrading to business class. But Hogg's performance elsewhere was encouraging, especially at Dens, giving grounds for optimism in the longer term.

Before then, Hogg is looking to spend some of its cash pile on acquisitions, probably in the travel division. Full year forecasts of £15m put the shares on just over 12 times, suggesting there is room for growth once consumer and corporate confidence returns to the travel market.

Alliance winding up order abandoned

By Peggy Holling

GIROZENTRALB Gilbert Elliott has abandoned its attempt to wind up a former client, Alliance Resources, the Louisiana-based oil and gas company which it brought to the market in 1991.

The broker has reached an agreement with Alliance over its claim for £38.246 in flotation fees. Cash-strapped Alliance had already paid £71.835 in fees but disputed the outstanding amount.

Alliance, which remains in receivership, also announced a series of board changes, which

resulted in the reinstatement of former chairman Mr John O'Brien and the appointment of two new non-executive directors, Mr Marcus Black and Mr John Craven. Mr Don Bealer, former vice-chairman, has resigned.

The group was put into receivership last month by the unquoted Manx Petroleum, where Mr O'Brien is managing director.

Manx claimed that Alliance had defaulted on the terms of a management agreement and a \$200,000 (£132,000) loan following the surprise dismissal of Mr O'Brien.

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- Interim dividend of 4.75p per share is up by 12%.
- Turnover continues to grow strongly - up by 11%.
- Mercury trading profit up by 36%.
- Earnings per share up by 4% to 18p.
- Net gearing at 30th September 28%.



CABLE & WIRELESS

Cable and Wireless plc, New Mercury House, 26 Red Lion Square, London WC1R 4UJ

Investment statement of 4,270 people 26 February 1992 to shareholders on the Register at 10 December 1992. If you have any queries at a Cable & Wireless Shareholder, please call us on 0171 324 4494. A copy of the Annual Report will be posted to shareholders on 25 November 1992. This advertisement and associated Chairman's message have been approved for the purposes of SII of the Financial Services Act 1986 by Cawtree & Co., a member of the SFA and of the London Stock Exchange. Past performance is not necessarily a guide to the future. The value of investments and the income derived from them can go down as well as up.



Baring Brothers & Co., Limited

November, 1992

Henry Barrett Group plc (In Receivership)

The following subsidiaries are mainly involved in contracting for construction industries, operating throughout the U.K. and overseas.

There is also a portfolio of freehold properties and investments available for sale.

OSS Origo

Newark

- Manufacture and installation of shelving and racking to major retail businesses
- Leasehold premises
- 40 Employees
- Annual turnover £3 million

HB Projects

Bradford

- Construction project management
- Annual turnover £2 million
- Highly skilled workforce

Don Reynolds

Bradford

- Leading manufacturer of curtain walling to the UK construction industry and overseas joint ventures
- Patented technology
- Freehold site
- 74 Employees
- Annual turnover £9 million
- International joint ventures

Westbury Tubular Structures

Wetherby

- One of the three principle manufacturers of tubular steelwork for the UK construction market
- History of prestigious contracts
- Highly skilled workforce
- Leasehold site
- 64 Employees
- Annual turnover £6 million

For further details contact the Joint Administrative Receivers:
Allan Griffiths, Peter Flesher and Geoffrey Gee, Grant Thornton, Eldon Lodge, Eldon Place, Bradford BD1 3AP. Tel: 0274 734341. Fax: 0274 390177.

Grant Thornton

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Hickman Boswell plc

Businesses and assets available for sale as a result of receivership.

- Building and contracting – substantial portfolio of contracts for public and private sector employers. Hickman Building and Civil Engineering Limited – Brierley Hill, West Midlands.
- MA Boswell (Contractors) Limited – Shrewsbury.
- Property development – various properties in West Midlands and Cheshire. Thoroughbred Commercial Developments Limited.
- Joinery and laminating business. Architectural Postforming and Joinery Limited – Brierley Hill, West Midlands.

Enquiries to the Joint Administrative Receiver of Hickman Boswell plc, SRE Hancock, Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT. Tel: 021-200 3000. Fax: 021-200 2464.

Price Waterhouse



Cleveland Shotblasting Ltd.

The Joint Administrative Receivers offer for sale the business and assets of Cleveland Shotblasting Ltd., an established shotblasting and painting company, located in Thamey, Cleveland.

Principal features include:

- Freehold property comprising 76,000 square feet of factory space.
- Turnover of approximately £1 million per annum.
- Large manual blasting booth.
- BS5750 certification for processes.
- Fully automatic large Tilghman wheelabrator.

For further information contact The Joint Administrative Receiver, Julian Whale, KPMG Peat Marwick, 1 The Embankment, Neville Street, Leeds LS1 4DW. Tel: 0532 313000. Fax: 0532 313183.

KPMG Corporate Recovery

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- Turnover c.£2 million per annum
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- Leasehold premises: Westbury, Wiltshire 39,000 sq ft; Boulton, Cumbria 25,000 sq ft.

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Principal features of the business include:

- Turnover c.£6 million p.a.
- BS5750 part 1: 1987 accredited and products designed and manufactured to BS 5486 standards
- WIP, order book, goodwill and assets including CAD/software programming facilities + software
- Designs & technical information
- Full range of plant, equipment and office furniture.

For further information, please contact the Joint Receivers, Frank Blin and G. Ian Rankin at Cork Gully, Kintyre House, 209 West George Street, Glasgow G2 2LW. Telephone: 041-226 4894. Fax: 041-226 6133.

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For further details please contact our agents: Richard Woodhead, Robert Barry & Co, 7 Upper Grosvenor Street, Mayfair, London W1X 9PA. Tel: 071-491 3026. Fax: 071-629 9373.

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Chester Metal Company Limited

(In Administrative Receivership)

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- Turnover > £1 million.
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For further information contact: AE James, Price Waterhouse, 69 Sandyford Road, Newcastle-upon-Tyne, NE9 1PL. Tel: 091 232 8493. Fax: 091 261 9490.

Price Waterhouse

Resort Ltd.

(In Administrative Receivership)

The Joint Administrative Receivers offer for sale the business and assets of Resort Ltd. The company manufactures headliners, body insulation and trim for commercial vehicles.

- Established customer base
- Turnover of approximately £1.5m p.a.
- 40,000 sq ft of leasehold premises
- Thermal plates presses

For further information, please contact G. Ord, Ernst & Young, PO Box 1, 3 Colmore Row, Birmingham B3 2DB. Telephone: 021-626 6262. Fax: 021-626 6303.

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RECRUITMENT

JOBs: Rare headhunter who still treats rejects as though they're worth more than ten a penny

WHAT price a bit of human decency? "Well, it's a mite controversial," replied headhunter Terry Ward.

"I put it at about £1.50 a head, but my wife reckons £2 - though she includes secretaries' time, which doesn't strike me as justified. They'd be here anyway, you see, even if we weren't doing it...."

All of which rather took the Jobs column aback. My last wish in asking the question was to stir up marital disagreements. What prompted it was just journalistic impulse in line with the old saw which, before the fuss over pit bull terriers at least, stated that while dog bites man is a common place, man bites dog is news.

One thing rarely missing from the postbag is complaints from job-seekers about recruiters, and vice versa. They have been biting one another so regularly for so long, with the idealism of mere middle-age in 1978, I proposed a peace treaty which Britain's Institute of Personnel Management developed into its professional recruitment code.

Alas, it has not proved very effective, especially these past two years. Indeed, to judge by the current gnashing of teeth on both sides of the employment market, it seems clear that whether or not

the first casualty of war is truth, considerate treatment is an early one of recession.

Hence this particular hack's delighted surprise when a reader wrote in praising a headhunter to whom he'd applied for a job, even though he'd been rejected without hearing the interview stage.

That in itself is nothing new to the reader concerned, since he has vainly applied for a couple of hundred others over 18 months or so. Mostly, he had no response at all. The sole exceptions, he says,

were brief acknowledgements from employers recruiting directly, and from a few "quality agencies such as NB Selection, MSC and Selector".

But on this latest occasion, the reader adds, back came a reply which despite being a rejection, shows "human understanding of applicants' needs". And having read the copy he sent along, I can see why he was so pleased.

Although confessing itself "a standard letter", it focuses its 400-plus words on the specific job for which he had applied. "The response included several videos,

many customised and beautifully presented applications, and even one compact disc," it says. "We received nearly 400 applications and my interview programme includes 39 people."

Then after indicating why the reader was not one of them, the headhunter adds: "However, I may well have thrown out the odd baby with the bath water - probably you! - but I hope you will appreciate my position."

What particularly pleased me was that the signature below was that of Terry Ward, whom I've known for years. He began his recruitment career with Ford, and since 1987 has been running the Ward Executive consultancy in Richmond-upon-Thames, in conjunction with his wife Claire.

So I telephoned him and asked how much it cost to respond to rejected applicants with such care when as many as 400 of them come in for a single post.

His reply was that 400 was below average these days. On three occasions fairly recently he had over twice as many - which in each case works out at a

By Michael Dixon

response cost of £1,200-plus at his estimate and more than £1,600 at Mrs Ward's higher figure.

"It's irritating at times because a lot of applicants are totally unsuitable," he said, "and at first we just sent printed cards. But when they started coming back with rude words on them, we realised they were making some people feel insulted, and began doing the job properly. We feel it's definitely worth while."

"Well, it's partly commercial. In this business it's wise to view every candidate as a potential client. But that's not the main reason. After all, even at £2 a head, it's a small price to pay for treating someone decently."

NOW to the table alongside, which gives indicators of prevailing pay levels in City of London banks, as revealed by Day Associates' latest survey.

Compiled at the beginning of this month, it is based on data

supplied by 111 assorted banks and covers 230 jobs from general manager to messenger. But anyone wanting the full report will need to contact Joe Clark at Suite 231, 75 Whitechapel Rd, London E1 1DU; tel 071-5375 1397, fax 071-375 1723. The VAT-inclusive

price is £141 to concerns which take part in the exercise, and £200 to others.

My extracts - which like all such survey figures provide at best a rough guide to the real state of pay - are confined to 16 managerial posts. First we have

basic salaries. The lower quartile refers to the person a quarter way up from the foot of a ranking of all in the same type of job, the median to the person mid-way, and the upper quartile to the one a quarter way down from the top.

Next comes the average salary and the percentage of it typically received as a bonus. The last two columns show the percentage of the job-holders with a company car, and its average price.

Position	SALARIES, BONUSES AND COMPANY CARS IN CITY OF LONDON FINANCE SECTOR						
	Lower quartile	Median salary	Upper quartile	Average salary	Avg. bonus %	Coy car %	Avg. price £
Equity trading head	100,000	110,000	130,000	112,000	25.2	80	15,500
Capital markets head	99,800	104,377	120,000	107,997	46.0	100	23,314
Corporate finance head	95,000	102,500	123,200	107,824	19.4	100	24,598
Eurobond trading head	71,000	93,280	130,000	98,456	60.0	80	18,365
Fund management director	85,000	91,500	105,250	94,472	15.8	100	22,777
Bond sales head	78,000	90,000	100,000	88,317	16.5	90	18,931
Head of research	82,350	86,000	94,080	87,108	11.3	100	18,983
Personnel director	60,125	62,952	92,500	79,726	18.6	63	18,467
Chief fx dealer	62,800	75,800	93,450	80,681	25.4	96	18,633
Financial director	61,580	69,000	72,000	73,943	14.3	100	20,665
Legal services head	60,000	65,600	80,448	67,221	31.0	100	18,884
Money markets head	54,337	65,550	87,000	70,659	31.9	100	18,162
D-P director	54,000	61,640	66,250	61,297	10.0	100	17,800
Private banking head	50,000	55,000	65,000	62,912	18.8	94	19,596
Credit manager	36,000	41,250	43,680	40,692	7.7	80	15,599
Customer services head	24,150	26,500	34,750	28,086	9.4	53	12,810

*Average inflated by one enormous salary among the sample of 11 people.

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The Securities Industry Examination
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For full advertising details alongside this feature please contact:

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ACCOUNTANCY COLUMN

Act of charity brings audit day of reckoning

Andrew Jack explains why non-profit organisations have to take financial reporting more seriously

BRITISH CHARITIES may soon be forced to drop their collecting tins and cheque books and turn instead to their computer spreadsheets as a whirlwind of change forces them to take financial reporting seriously.

After years of neglect, a substantial cultural shift and a series of new guidelines and legislation are rapidly bringing accounting matters in the sector to the fore. Moral suasion is being replaced with tougher demands for compliance.

The next few months should bring considerable reform. Most important are several regulations to supplement the 1992 Charities Act, specifying how charities present and audit their accounts, and an up-dated version of SORP 2, the statement of recommended practice for charity accounts.

The Charities Commission is expected to issue a consultation document updating SORP 2 by the end of January. The Home Office will be releasing details of several statutory instruments by early next summer to cover the elements to be contained in accounts; the content and format of reports; and the duties of auditors.

By next September, there should be requirements in place on what accounts will contain. All charities with annual income in the current or previous two years above £100,000 will require annual scrutiny by a professional auditor, and those with income above £1,000 by an "independent examiner". All will also be required to file accounts each year.

The current pace of reform is not limited to Britain. Last month the Financial Accounting Standards

Board in the US issued a consultative document on financial statements for not-for-profit organisations as part of a wider programme of sector reform.

There is undoubtedly a need for greater attention to responsible financial management and accountability. Charities have substantial tax privileges. They rely on contributions made in good faith by the public or government. They are also big business. Estimates suggest there may be 300,000 or more total charities, with annual income of at least \$1bn.

Yet observers do not need to look very far to see the extent of existing neglect. Last year there were nearly 135,000 principal charities registered with the Charity Commission. The proportion of these that got as far as submitting accounts was just 11 per cent in 1992.

Thanks to computerisation and greater efforts to chase up delinquents, that figure has risen substantially and the commission is confident it can collect more than 80 per cent of accounts by 1994. Yet last year it still remained at only 46 per cent.

There is little guarantee of the quality of financial information even among those charities which do file accounts. In 1988, the Accounting Standards Committee issued SORP 2. But the guidelines are entirely voluntary. They have also been criticised for being too flexible.

There is also little data on the extent of compliance with SORP 2. But one barometer of the quality of information is this week's charity annual report and accounts award sponsored by the Institute of Char-

ttered Accountants in England and Wales, the Charities Aid Foundation and the Charity Forum.

This year there were only about 330 entries, down from a peak in one year of 500. The judges believe charities may have been put off by details in the application form showing elementary mistakes made in the past. But a good number of submissions still suffer from the same faults, including points as basic as no accounts attached or the balance sheet being unsigned and

accounts. Many of the larger organisations are already externally audited, and show a high degree of compliance with SORP 2. For smaller charities, the pattern is more disappointing.

There is understandable caution about what they want to reveal. Mr Peter Scott, an accountant and financial publisher compiling a directory of charity accounts, says "While companies have a tendency to enhance their figures, charities wear the most poverty-stricken clothes possible and tuck away income for fear that contributions will dry up."

Being too explicit about income could bring a lack of sympathy, since donors tend to contribute when they believe a charity is in financial difficulty. It might also give rival charities ideas on potential new donors.

Mr Scott says charities very often write off all expenditure immediately. They try to avoid passing money through income and expenditure. There is little indication of how much of their funding is tied or committed. They also provide scanty information on the value of their assets.

He would like to see improvements in the information provided in these areas. He also believes that SORP 2 allows too many alternative methods of treatment and needs to be made more rigidly applicable.

A paper submitted by a group of researchers to the Charity Commissioners argues that SORP 2 should be revised to reflect factors such as greater information on charities' sources of income; expenditure by areas of activity; and details of costs. It calls for clarification of which sub-

sidiaries or related organisations should be consolidated, and much more on the valuation of assets.

But Scott - like many charity accountants - is also conscious of the dangers of drawing comparisons based on the accounts. Focusing on overheads and administration expenses can give rise to unfounded criticism, for example.

The charity accounts award highlights one such instance. One winner, Community Network, showed administration expenses as 90 per cent of income. There was little explanation of these expenses, which might appear very high. In fact, one of the Network's principal activities is telephone counselling, and the telephone bill accounts for most of these costs.

The figures will vary widely - and justifiably - between a wide range of different sorts of charities, from fund-raisers to those carrying out their own activities, and from those reliant on volunteers to those staffed by highly-qualified professionals.

Mr Pesh Framjee, senior consultant in the charity unit at accountants BDO Binder Hamlyn, argues that accounts tend to focus on inputs and are far less valuable in assessing outcomes. He says there is a need to look at other, more qualitative criteria which could be included in the trustees' reports to accompany charity accounts.

He proffers a rather heretical view of his profession. "Accountants think accounts are the be-all and end-all. But charities have no bottom line or earnings figures. The numbers do not measure their effectiveness."

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FINANCIAL CONTROLLER

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You will be a strong character with a commanding presence and be able to relate well to people. You should be versatile, resourceful and have a good sense of humour.

Experience of full reporting to a public company in a subsidiary within a large group would be an asset. Fluency in Dutch (or another European language) would be an advantage. Good computer skills and extensive use of spreadsheets (preferably Lotus 3.1) are essential.

You should be mobile and preferably single. You will be required to travel to the Netherlands from the North East to Holland after a two month period and return to the North East on completion of the 6 month to 3 year period.

Benefits will include a car and two return tickets to the UK per year.

Interested applicants should contact either Karen Wilson or Dawn White on 071-405 4161, or write enclosing a recent CV and a note of current salary to FMS, 5 Bream's Buildings, Chancery Lane, LONDON EC4A 1DY.

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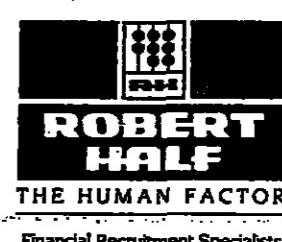
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Candidates, age indicator 26-35, should be qualified Accountants with sound technical experience coupled with a strong commercial background. As the Finance Director will be very reliant on this individual, being a self-starter, with good organisational, interpersonal and common sense skills will be distinctly advantageous.

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You will be a strong character with a commanding presence and be able to relate well to people. You should be versatile, resourceful and have a good sense of humour.

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COMMODITIES AND AGRICULTURE

Ukraine plugs expensive oil leak

Chrystia Freeland and Neil Buckley report on an alleged \$20m scam

VLADIMIR HORIUNOV, until this week the top oil man in Ukraine, had achieved a lifestyle few of his countrymen can even imagine. When Mr Vitaly Fokin became Ukrainian prime minister, he plucked his friend and associate Mr Horinov from the Lysychansk refinery in the dismal rust belt of eastern Ukraine and appointed him president of Ukrnaftokhimprom, the state oil monopoly.

But Mr Horinov was often absent from Ukrnaftokhimprom's Kiev headquarters, travelling frequently to the UK, Europe and North America.

This week those halcyon days ended as Mr Leonid Kuchma, the prime minister who replaced Mr Fokin less than a month ago, disbanded Ukrnaftokhimprom and fired its senior directors, alleging they were engaged in illegal resale of oil on a massive scale. The body has been replaced by a state committee on oil and gas.

Mr Kuchma - who has launched a major clean-up campaign since coming into office - alleges that 8m tonnes of oil have been re-exported from Ukraine this year alone. He says he has passed information on to the Ukrainian state prosecutor and will press for changes to be brought.

The case illustrates the dangers of corruption as the former-Soviet republics begin their transition to market economies, and follows widespread rumours and suspicions of oil industry corruption in several other republics.

The allegations that Ukrainian officials are profiting from the resale of oil come at a time when crucial services are being cut because of Ukraine's worsening oil crisis, caused by Russia's gradual shift to world prices. Ukraine, which traditionally consumed 50 m to 60 m tonnes of crude oil a year has received less than 30 m tonnes over the past ten months.

Ambulance services in the southern city of Mykolaiv have been severely affected, domes-



tic flights from the capital city, Kiev, were grounded for several days last week and the price of a canister of fuel on the black market is close to the average monthly salary. Ukrainian oil refineries are working at less than half their normal capacity.

The Financial Times has obtained the details of some of the deals in which Mr Horinov and his Ukrainian and foreign associates were involved.

Ukrainian oil industry officials allege that more than \$20m worth of fuel was re-exported; the FT had evidence of re-exports worth several million dollars.

Contracts and internal correspondence show that one of the ways Mr Horinov's refinery in Lysychansk re-exported petroleum products was through Triplet, a private business in Kiev that was set up specifically for this purpose.

With the help of various co-operative government agencies, Triplet obtained export licences for the fuel. Western purchasers were then directed to send payment for the fuel to a UK-based company called Eltrip, which includes Mr Sergei Tsyshankov, director of Triplet, on its board of directors. Mr Horinov also became a director in October 1991.

One specific deal, in summer 1991, worked like this: 50,000 tonnes of heavy fuel oil refined at Lysychansk, the Ukraine's

"In this bordello which we

biggest oil refinery, were exported to an unknown Western purchaser through the Lithuanian port of Klaipeda. Triplet made the arrangements with the assistance of Istok, a Russian company that has been accused by the Moscow daily, Izvestia, of involvement in illegal oil re-export.

Triplet and the Lysychansk refinery then requested that payment for the fuel - which amounted to \$1,893,844.47 after transport and other costs had been subtracted - be transferred to the British bank account of Eltrip. Mr Tsyshankov, director of both Triplet and Eltrip, admitted yesterday this deal had taken place but said full payment had not been made by Istok.

The FT has details of other contracts in 1991 relating to the export of 700,000 tonnes of diesel fuel, 200,000 tonnes of gasoline, and at least 980,000 tonnes of heavy fuel oil and 300,000 tonnes of other fuel, but it is not clear whether all these deals took place.

Mr Kuchma told reporters earlier this week that while many of the deals had been licensed, licences had sometimes been obtained fraudulently. Moreover, the resale of oil products was illegal because it violated Ukrainian law and agreements with Russia, and the proceeds had ended up in private hands.

Repeated efforts by the FT to contact Mr Horinov over the past four months have been unsuccessful.

Mr Tsyshankov, however, said the legality of the licenses was not the responsibility of Triplet, but of Ukrvnesftegiprobmobil, the body which issues licences.

He added that Eltrip had only been used to buy equipment for the Ukrainian oil industry, and claimed that Mr Fokin had given permission for some re-exports to take place this year to fund new equipment purchases for the Lysychansk refinery. He had since resigned as a director.

was nationalised in 1976.

The minister of energy and mines, Mr Alvaro Parra, said that the fields, grouped into 13 production units according to location, contain light and medium gravity crude. Once the marginal fields are fully operational they should be able to produce a total of about 260,000 barrels a day, or about 10 per cent of Venezuela's current crude oil production.

Mr Parra added that the new operating contracts would be more flexible than agreements signed earlier this year, and would allow contractors to

explore for additional deposits of oil and gas within their assigned areas.

The fields, some of which are at present being operated by the national oil company, PDVSA, have not received any significant investments for about 15 years. They are considered marginal fields as they do not form part of PDVSA's mainstream plans for developing new oil production capacity.

The winning bidders will finance any production investments out of their own pockets and will be paid fees by

PDVSA according to the volume of oil they produce. The operating companies will not own the oil they produce, and will be obliged to sell all oil and gas output to PDVSA.

Mr Parra said he expected that companies interested in bidding on the fields would obtain all necessary technical data by March 31, 1993, and that tenders should be received by June 30 next year.

Earlier this year four investor groups made up of Venezuelan and international partners won contracts to operate a series of inactive and marginal

oil fields. Two groups, Japan's Teikoku Oil Company and a consortium made up of Benton Oil (US) and Vincles (Venezuela) agreed to invest a total of US\$280m over the next decade to develop and operate specific oil fields.

However, the other two winners - Shell and Lingoteras de Venezuela (a Venezuelan group) - did not sign operating contracts. According to the ministry, Shell wanted any legal disputes to be settled in New York state, a position the Venezuelan government did not accept.

"The current agreement is working well to the advantage of consumers as prices have remained low," said Mr Scharif, who was attending

Venezuela invites operators to tender for 'marginal' fields

By Joseph Mann in Caracas

THE VENEZUELAN government announced that it is seeking international tenders covering the operation of 75 so-called "marginal" oil fields with total proven reserves of 1.3m barrels.

This is the second time the government of President Carlos Andres Perez has asked private companies to bid for the rights to produce crude oil. Until earlier this year, this sector had been closed to private investment ever since the Venezuelan petroleum industry

was nationalised in 1976.

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"The current agreement is working well to the advantage of consumers as prices have remained low," said Mr Scharif, who was attending

the International Natural Rubber Study Group's forum. He said rubber producers wanted to review the discretionary powers of the buffer stock manager.

Council members of the International Natural Rubber Organisation, a consumer-produced organisation are scheduled to meet from November 23 to December 2 in Malaysia.

At its May meeting, the Imro

council failed to end a stalemate on whether the current price-stabilising International Natural Rubber Agreement should be reviewed.

Producers want the pact, which expires at the end of 1993, replaced, saying it favours consumers. But consumers want the status quo maintained. "Imro's intervention has not made much impact," Mr Scharif said.

Go-ahead for heavy minerals project

By Kenneth Gooding, Mining Correspondent

By Philip Gawith in Johannesburg

ANGLO AMERICAN Corporation, South Africa's largest mining house, has announced that it is proceeding with the Riba Namakwa Sands heavy minerals project in the North-West Cape.

Speaking in Johannesburg yesterday, Mr Julian Ogilvie Thompson, chairman, said the project showed that "although South Africa is a small player in global terms, we are as competent, innovative and competitive as the rest".

Production is scheduled to start in 1994 at an initial min-

ing rate of 4m tonnes a year,

rising to full capacity of 16m tonnes as the market improves.

Reserves are in excess of 500m tonnes. At full

production the plant should

generate revenue of R360m (\$45m) a year, in 1992 money, almost all of which will come

from exports.

The capital cost is R946m in current money. The R575m equity portion will be funded 80 per cent by Anglo and 20 per cent by its associate De Beers. The Industrial Development Corporation will be lending the balance of R376m.

The main product at the early 1980s level will be ilmenite, which will be smelted to produce titanium slag and pig iron.

The slag is ultimately used as a colourant in paper and paints, while pig iron is a specialty iron with ductile qualities.

By-products will be zircon, used in the ceramics and foundry industries, and rutile, which is used in the manufacture of pigment for the paint, paper and plastics industries. At full production the project will produce annually 195,000 tonnes of slag, 120,000 tonnes of pig iron, 140,000 tonnes of zircon and 38,000 tonnes of rutile.

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RTZ's investment boosts credibility of diamond site

By Kenneth Gooding, Mining Correspondent

By Philip Gawith in Johannesburg

RTZ CORPORATION, the world's biggest mining group, has already spent US\$6m to join the hectic hunt for diamonds in the Lac de Gras area of Canada where the biggest land rush in North American history is taking place. If the UK group takes up all its land options it would cost \$30m, said Mr Bob Wilson, chief executive.

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LONDON STOCK EXCHANGE

Share prices cling on to recent gainsBy Terry Byland,
UK Stock Market Editor

THE latest statistics on the domestic economy helped the UK stock market to hold on to the FT-SE 2,700 mark yesterday, although attempts to move further ahead were not successful. A substantially greater increase than expected in domestic lending by the banks and building societies during October raised some hopes that the economic recession might be lifting at last. But this was counterbalanced by the implications of the stagnating performance in UK gross domestic product in the third quarter, also disclosed yesterday.

Equities opened higher, benefiting from a firmer performance from other global markets overnight, but were soon restrained by softness in the US dollar which held back the blue chip internationals. The FT-SE Index was also held back by a fall in ICI on the reports that a leading UK securities house was about to issue a somewhat cool appraisal of the planned merger of the biotech divisions.

However, the market found support again when the Footsie 2,700 area was challenged and share prices then crept higher, with the announcement of the UK money supply and bank lending data helpful. Also encouraging for the

TRADING VOLUME IN MAJOR STOCKS

	Volume Change Day's ago	Open	Day's high	Day's low	Price change	Volume Change Day's ago	Open	Day's high	Day's low	Price change	Volume Change Day's ago	Open	Day's high	Day's low	Price change
AUT	2	405	2,600	2,577	+1	2,600	2,750	2,750	2,745	-5	2,600	2,620	2,610	-20	-20
ASIA Group	11,020	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,595	-5	-5
Albert Fisher	1,050	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Anglo American	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Anglo Welsh	1,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Argus Group	2,500	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Armco	2,500	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Avon	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BAT Int'l	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BBC	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BCE	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BHP	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BTC	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BT New	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
British Gas	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Burnden	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
BUSC (The Sun)	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Burnside	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Cadbury Schweppes	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Caerphilly	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Cambridge Investors	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Carillion	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Castrol	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Centrica	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Chase Manhattan	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Chase Securities	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Chubb	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Coats	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Commodore	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Concordia	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Corus	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Cougar	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Crucible	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Cutter	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Dai-ichi Kf	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Daimler-Benz	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Davies	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Deutsche Bank	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Diageo	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Dunlop	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Eagle	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Edwards Lifesciences	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Elmwood	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Enron	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Ernst & Young	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Exxon	2,000	2,600	2,600	2,595	-5	2,600	2,600	2,600	2,595	-5	2,600	2,600	2,600	-5	-5
Fisons	2,000														

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Mid Price	Offer Price	+/-	Yield	Mid Price	Offer Price	+/-	Yield	Mid Price	Offer Price	+/-	Yield	Mid Price	Offer Price	+/-	Yield	Mid Price	Offer Price	+/-	Yield	Mid Price	Offer Price	+/-	Yield				
Prolife Life & Pensions Ltd				Reliance Mutual				Scotish Mutual Assurance plc				Sun Alliance Group - Contd.				Albany International Assurance Ltd				Target International Group				Globe Flight Fd Managers (Ireland) Ltd			
Stromontec, Kuwaiti, Omania LAV 401	52573733			Reliance House, Tamworth Wells, West	0892 210033			St. Vincent St. Glasgow	041 240 321			St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Merill Lynch Catalyst				PO Box 250, St Peter Port, Guernsey	0401 712176		
Life Fund Fund for Balanced Growth Fund				Diamond Acc Fd	168.0	173.4	-5.4	Perf Med Oct 30.	140.0	140.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Range Fund	020 27			Range Fund	020 27		
Balanced Genl Fund	112.1	112.1	-0.9	Managed Acc Fd	133.7	134.5	-0.8	Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Leisure Portfolio Fund	020 27			Leisure Portfolio Fund	020 27		
Abundance Fund	116.6	116.6	-0.2	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Cash Fund	116.6	116.6	-0.2	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Property Fund	127.3	127.3	-0.4	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Equity Fund	170.8	170.8	-0.4	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Intelligence Fund	115.3	115.3	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
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Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
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Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27			Whale Capital Fund (Europe) Ltd	020 27		
Properties Fund	124.2	124.2	-0.1	Perf Med Oct 10.	124.0	124.0		Perf Med Nov 10.	125.0	125.0		St. Mary's, Castlerea, Co. Roscommon	024 922702			St. Mary's, Castlerea, Co. Roscommon	024 922702			Whale Capital Fund (Europe) Ltd	020 27						

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FOREIGN EXCHANGES

Sweden devalues the krona

THERE was strong speculation yesterday that another realignment of the European exchange rate mechanism is imminent after Sweden's central bank decided to float the krona against the European currency unit (Ecu), writes James Blitz.

The Swedish authorities abandoned their policy of fixing the krona's exchange rate against the Ecu after an earlier decision to raise interest rates to 20 per cent failed to stanch a heavy flight of foreign capital out of Stockholm.

By 1700 GMT, the float had effectively devalued the currency by 8.4 per cent against the D-Mark to a level of Skr1.1204.

The effects of the devaluation were felt across the world's currency markets, forcing the D-Mark up against the dollar, the French franc and the lira as investors sold kronor for the German currency.

The dollar closed nearly 2 pence down against the German currency at DM1.5780. The Italian lira, which had appreciated sharply as investors grew increasingly confident about the Italian government's emergency package, fell to a close of L855.1 against the D-Mark from a previous L855.1. Later, in US

trading, it had slumped to L833.

Perhaps the most striking fall was the French franc's. Dealers have come to see it as one of the strongest currencies in Europe in recent weeks. That impression has still not been severely dented, but the franc closed at FFr3.8800 against the D-Mark, down 0.7 cents on the day.

The overall effects of the devaluation remained small in comparison to the floating of the Finnish markka in the autumn, at a time when markets were moving towards the currency crisis crescendo.

However, some dealers suggested that yesterday's move might have a domino effect, increasing volatility in exchange rates in the next few days.

Mr Avinash Persaud, an economist at UBS Phillips & Drew in London, believes that European financial authorities could now be forced into an

imminent realignment of the ERM, in which the Spanish peseta, the Portuguese escudo and the Irish punt are involved.

Dealers believe these currencies are still overvalued against the D-Mark, and that they will need to be devalued by between 5 and 10 per cent to trigger a badly-needed spurt of economic growth.

"European financial authorities will now start to believe that the system needs a catharsis - a cleaning - from which it will become far more stable," said Mr Persaud. "The Swedish devaluation was not an isolated event. Sweden is the first of the devaluation candidates not to be defended by capital controls."

Sterling, which is extremely unlikely to return to the ERM in the near term, fell one pfennig to a close of DM1.6200. Sterling closed up more than one cent against the US currency at \$1.5823.

The dollar closed nearly 2 pence down against the German currency at DM1.5780. The Italian lira, which had appreciated sharply as investors grew increasingly confident about the Italian government's emergency package, fell to a close of L855.1 against the D-Mark from a previous L855.1. Later, in US

US IN NEW YORK

Nov 19	Last	Previous
Euro	Cents	Cents
1 Spot ...	1,356.1-1,370	1,325.1-1,326
1 month ...	1,511.0-1,520	1,510.0-1,511
3 months ...	1,522.3-1,525	1,519.0-1,520

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

Nov 19	Euro	Currency	% Change	%	%	Dealers' Indications
	Central	Amounts	from	From	To	
	Date	Market	Controlled	Rate	Rate	
1 Spot ...	1,356.1-1,370	1,325.1-1,326	-0.5	0.5%	0.5	
1 month ...	1,511.0-1,520	1,510.0-1,511	-0.5	0.5%	0.5	
3 months ...	1,522.3-1,525	1,519.0-1,520	-0.5	0.5%	0.5	

Euro market rates set by the European Commission. Changes are in decimal points of strength. Percentage changes are in decimal points. Figures below the rate column give the percentage difference between the actual market and Ecu control rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu control rate.

1/10th Sterling and Dollar rates supplied by EcuM. Adjustment calculated by Financial Times.

Forward premiums and discounts apply to the US dollar

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1/10th Sterling and Dollar

WORLD STOCK MARKETS

FRANCE (continued)											GERMANY (continued)											NETHERLANDS (continued)											SWEDEN (continued)														
November 19	Sch	+ or -	November 19	Frs.	+ or -	November 19	Frs.	+ or -	November 19	Frs.	+ or -	November 19	Frs.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -	November 19	Kr.	+ or -
Austrian Airlines	1,770	-10	Cap Gemini S	1,640	-2,10	Dreyfus Bk	555	-50	Eurostar Bk	9,10	-30	Nobel Fins	9,20	-	100 Lauren Bk	510	10%	100 Lauren Bk	510	10%	800 Comptab	55	5%	100 Lauren Bk	510	10%	700 Stora Enso A	510	10%	700 Stora Enso A	510	10%	700 Stora Enso A	510	10%	700 Stora Enso A	510	10%									
Autostadt P	445	+5	Carnetelstat	1,000	-50	Dreyfus Fund	1,240	-150	DSM	70,70	-10	Prudential B	1,71	-15	5000 Lauren Op	510	10%	5000 Lauren Op	510	10%	3,200 Compa Dev	510	10%	5000 Lauren Op	510	10%	19,000 Scampers	500	10%	19,000 Scampers	500	10%	19,000 Scampers	500	10%												
EA General	3,000	+5	Carrefour	1,000	-50	GEHE	134,50	-50	Procter & Gamble	1,71	-15	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
EVA	781	+7	Carrefour	1,000	-50	Geschermer	226,50	+50	Reichhold	112,90	-	SCA A	92	-5	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Edelweiss	16,010	-10	Champs Elysees	1,214	-10	Goldscheider (TH)	680	-	Felden Deg Ross	15,40	-	SCA B	91,50	-7,50	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Ernst & Young	1,030	+5	Club Mediterranee	243	-10	Hamburg Elekt	172	-	Felden Deg Ross	17,90	-10	SKF A Free	76	-4	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Bartsch Rekord	300	+5	Cognac Igt	303,50	-25,50	Hamburg Elekt	810	-	Felden Deg Ross	17,90	-10	SKF B Free	76	-4	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Reinholdt Brue	1,016	+1	Cofip C	205,40	-2,50	Hausberg Elekt	810	-	Felden Deg Ross	17,90	-10	Sandwich A	330	+2	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Reinholdt Brue	190	+1	Cofip C	205,40	-2,50	Hausberg Elekt	810	-	Felden Deg Ross	17,90	-10	Sandwich B	330	+5	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Volksbank	237,50	-5,50	Hausberg Elekt	810	-	Hausberg Elekt	240,50	-	Hausberg Elekt	22,80	-1	Skandia A	77	-	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Veritas Int'l A	406	-	Hausberg Elekt	240,50	-	Hausberg Elekt	915	-10	Hausberg Elekt	37,40	-10	Skandia B	77	-	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Wiesenhof	1,021	+11	Hausberg Elekt	915	-10	Hausberg Elekt	240,50	-	Hausberg Elekt	65,40	-20	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Z-Landerbank	1,020	+10	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
BELGIUM/LUXEMBURG	1,000	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
November 19	Frl.	+ or -	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
AG Gruppe	2,120	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Arbeitsamt	2,070	+5	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Alimentari	1,040	-135	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
BBL	3,500	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Santini B & Lux	11,500	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Belga Mil Dlg P	1,000	+10	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
Belgian	12,175	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
CBR Clement	7,850	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%	5000 Compa Dev	510	10%															
CMB	1,500	-	Hausberg Elekt	240,50	-	Hausberg Elekt	240,50	-	Hausberg Elekt	163	-5	RHC Gallard	65,40	-20	5000 Compa Dev	510	10%	500																													

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

كتاب الصالحة

**GET YOUR
DELIVERY**

NYSE COMPOSITE PRICES

	Vol.	Pr. \$/sh.	High	Low	Close	Chg.	Chg. %	Chg. \$/sh.	Stock	Div. %	Pr. \$/sh.	High	Low	Close	Chg.	Chg. %	Chg. \$/sh.	Stock	Div. %	Pr. \$/sh.	High	Low	Close	Chg.	Chg. %	Chg. \$/sh.						
High-Low Stocks																																
100% 45% Schlesinger	0.24	1.0	1.12	0.15	0.24	-0.01	-1%	-0.01	65 41% Telex Ind	0.30	0.35	0.45	0.42	0.45	-0.03	-1%	124 10% Teleflex	0.84	0.75	1.00	1.11	1.11	-0.01	-1%	124 13% UniTech	0.12	0.13	0.14	0.13	-0.01	-1%	
100% 10% Schwab	0.16	0.2	0.22	0.15	0.16	-0.01	-1%	-0.01	65 23% Telex Per	1.14	1.15	1.15	1.15	1.15	-0.01	-1%	75 3% Vaco Int	0.26	0.26	0.26	0.26	0.26	-0.01	-1%	130 17% UniTech	0.68	0.7	0.75	0.75	0.75	-0.01	-1%
100% 7% Seacor	0.10	0.11	0.12	0.11	0.10	-0.01	-1%	-0.01	65 25% Texaco	1.00	0.95	0.95	0.95	0.95	-0.01	-1%	124 23% Veran Int	0.26	0.26	0.26	0.26	0.26	-0.01	-1%	130 23% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 13% Seafarper	0.24	0.2	0.22	0.21	0.24	-0.01	-1%	-0.01	65 24% Texaco C	0.75	0.75	0.75	0.75	0.75	-0.01	-1%	124 24% Vandy L	0.10	0.10	0.10	0.10	0.10	-0.01	-1%	130 23% UniTech	0.12	0.12	0.12	0.12	-0.01	-1%	
100% 14% Seafarper	0.15	0.15	0.15	0.15	0.15	-0.01	-1%	-0.01	65 24% Texaco P	0.72	1.05	1.05	1.05	1.05	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 8% Seafarper	0.15	0.15	0.15	0.15	0.15	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 8% Sea Centre	0.48	0.2	0.2	0.18	0.48	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 14% Seafarper	0.15	0.15	0.15	0.15	0.15	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 20% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40	-0.01	-1%	124 14% Vestcom	1.10	1.10	1.10	1.10	1.10	-0.01	-1%	130 14% UniTech	0.15	0.15	0.15	0.15	-0.01	-1%	
100% 21% Seafarper	0.25	0.25	0.25	0.25	0.25	-0.01	-1%	-0.01	65 24% Texaco P	0.40	0.41	0.40	0.41	0.40																		

AMERICA

Good earnings reports offset economic data

Wall Street

DESPITE some unexpectedly bad economic news, US stock markets held their ground yesterday thanks to some good earnings reports, writes Patrick Horverson in New York.

By 12.30 pm the Dow Jones Industrial Average was up 0.52 at 3,207.50, having spent all morning only a few points in positive territory. The more broadly based Standard & Poor's 500 was also little changed at the halfway mark, down 0.08 at 423.84, while the Amex composite was up 1.15 at 387.64 and the Nasdaq composite firm 0.29 to 638.15. Turnover on the NYSE was heavy at 124m shares by 12.30 pm, and rises outnumbered declines by 835 to 744.

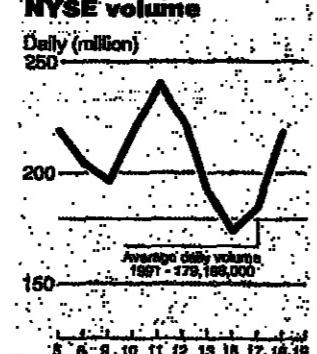
After a series of better-than-expected economic data, market sentiment was hit by two disappointing reports yesterday morning. The Labor department announced a 31,000 rise in weekly jobless claims to a new total of 336,000, an increase which was much higher than forecast. Similarly, analysts were caught out by the Commerce Department's report of a 1.1 per cent drop in October housing starts.

There was one piece of good news, however. The Philadelphia Federal Reserve reported

that its measure of regional manufacturing activity is up sharply this month, an indication that the local economy is coming back to life.

There was also some good corporate news for the market. Campbell Soup rose 1.1% to

NYSE volume



AT&T firm 3% to \$47 on the news that the telecommunications group plans to sell 15 per cent of its AT&T Capital leasing subsidiary in a offer to

the public.

On the Nasdaq market, National Computer dropped 3% to \$14.24 after reporting third-quarter net income of 23 cents a share, down from 25 cents a share a year earlier and below analysts' forecasts.

Canada

TORONTO was steady at mid-day as the TSE 300 index added 0.32 to 3,232.00 in volume of 17.7m shares. Among active stocks, Continental Pharma A shares rose 5 cents to C\$2.45, Royal Trustco put on 1 cent to C\$2.65 and PWA Corp put on 14 cents to C\$1.54.

Owens-Corning rose 1.1% to \$30.40 after Merrill Lynch, the Wall Street broking house, raised its fourth-quarter profits forecast from 36 cents a share to 41 cents a share.

Morgan Stanley eased 3% to \$53 after the big securities company reported a small drop

in third-quarter profits to \$11.6m. The results were in line with market expectations.

Transamerica jumped 3% to \$45 after the financial services conglomerate announced that it was floating a majority of its property-casualty insurance operations. The company had previously announced that it would dispose of the units.

ADRs in Sony Corp dropped 1% to \$30.40 after the Japanese electronics and entertainment giant reported that consolidated pre-tax profit for the first half fell 61 per cent.

AT&T firm 3% to \$47 on the news that the telecommunications group plans to sell 15 per cent of its AT&T Capital leasing subsidiary in a offer to

the public.

The stock market has been driven lower by high interest rates, and with little let-up in inflation, the pressure looks set to continue.

The state-owned Ziraat, the country's largest bank, is now offering 73 per cent on yearly deposits.

This reflects a resurgence in inflation, after a slowdown

High interest rates depress Istanbul

After a miserable year, Turkish equities are looking cheap, says John Murray Brown

Dashed hopes on inflation and high real interest rates have given Turkish equities a miserable year, but if one thing can be said with confidence it is that they have probably never been cheaper.

According to data provided by the IFC, part of the World Bank, Turkish equities have been the worst performers in its emerging markets table, falling by 58.8 per cent in dollar terms from the start of the year to the end of October, and showing no improvement by mid-November.

As many as 35 stocks of the 145 traded are now below their nominal value, market capitalisation has fallen to \$3.5bn from \$15bn in November last year, and daily turnover has dropped to around \$1m from \$30m a year ago.

The stock market has been driven lower by high interest rates, and with little let-up in inflation, the pressure looks set to continue.

The state-owned Ziraat, the country's largest bank, is now offering 73 per cent on yearly deposits.

This reflects a resurgence in inflation, after a slowdown

over the summer. Consumer prices jumped in September and October, pushing the annual inflation rate to 69.2 per cent, way above the government's 1992 target of 42 per cent.

The market, which lacks large institutional investors to provide much-needed liquidity, has been deserted by local retail investors who have provided much of the impetus in the past. They are putting their money elsewhere, into time deposits or into gold.

Institutional reform has been slow. The government has still to approve legislation to provide tax breaks for mutual funds to encourage them to invest in equities.

"There is still little concept of fund management in Turkey. You're either in one thing or the other. There is no idea of diversifying a portfolio," says Ms Radhika Ajmera, director of Abitru, which manages the Turkey Trust.

The government has taken some measures to encourage investment in the stock market. For example, it has made insider trading illegal. "We've

IFC EMERGING MARKETS PRICE INDICES									
Market	No. of stocks	Dollar terms			Local currency terms				
		Oct 31 1992	% Change over month	% Change on Dec '91	Oct 31 1992	% Change over month	% Change on Dec '91	Oct 31 1992	% Change over month
Latin America									
Argentina	(25)	833.00	-8.5	-36.1	45,761.964	-8.5	-35.8	45,761.964	-8.5
Brazil	(85)	102.07	-12.9	+9.3	263,341.057	+9.3	+22.9	263,341.057	+9.3
Chile	(35)	1,541.32	+8.4	+19.4	5,309.283	+7.8	+18.9	5,309.283	+7.8
Colombia	(20)	1,113.60	-3.4	+38.1	7,750.31	-2.3	+55.3	7,750.31	-2.3
Mexico	(66)	1,549.05	+16.3	+6.9	25,018.62	+17.7	+8.1	25,018.62	+17.7
Venezuela	(17)	417.16	-8.3	-38.3	4,199.36	+0.6	-23.4	4,199.36	+0.6
East Asia									
South Korea	(91)	281.34	+26.4	-8.6	247.28	+26.3	-5.7	247.28	-5.7
Philippines	(30)	1,324.50	-1.3	+33.8	2,337.93	-3.4	+22.9	2,337.93	-3.4
Taiwan, China	(70)	480.49	+1.6	-23.7	305.60	+2.3	-24.9	305.60	+2.3
South Asia									
India	(62)	351.03	-12.6	+27.5	793.25	-12.9	+39.0	793.25	-12.9
Indonesia*	(53)	64.46	+1.2	+15.6	73.16	+2.0	+18.9	73.16	+2.0
Malaysia	(22)	185.39	+7.7	+29.0	191.80	+6.4	+19.0	191.80	+6.4
Pakistan	(56)	255.28	+3.3	-20.1	415.87	+3.9	-18.7	415.87	+3.9
Thailand	(51)	423.01	+13.0	+33.4	394.23	+13.2	+34.7	394.23	+13.2
Middle East									
Greece	(22)	265.82	-17.2	-35.8	414.07	-4.0	-28.7	414.07	-4.0
Iraq	(27)	104.23	-0.9	+9.1	198.28	-0.3	+8.5	198.28	-0.3
Portugal	(30)	351.89	-14.2	-18.1	312.31	-6.1	-15.5	312.31	-6.1
Turkey*	(25)	35.07	-15.6	-58.5	357.96	-9.4	-38.5	357.96	-9.4

Source: International Finance Corporation. Data as Dec 1991 = 100. Dec 1989 = 100. Mar 1990 = 100. May 1990 = 100. Oct 1990 = 100.

passed 17 regulations since May," says Mr Yaman Agikoglu, head of the Capital Markets Board, the government watchdog authority. "Even if nothing else is done, the mere fact that it's now law is sufficient to bring offenders to court."

While investors are not falling over themselves to return, there is nonetheless a growing feeling that the market may finally be approaching the bottom.

Some blue-chip companies are reporting good earnings growth, beating the govern-

ment's own target of 5.6 per cent for the economy in 1992. The favoured sectors are those with strong cash flow and low debt, a major problem in view of the country's high real interest rates, and companies which have a well-established franchise in the domestic market.

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EUROPE

Sweden rallies on decision to float krona

INFLUENCES on bourses were powerful and varied yesterday, with Sweden elevated by a sinking currency and France depressed by a big sell programme, writes Our Markets Staff.

STOCKHOLM rallied 4.1 per cent in heavy trading on speculation, confirmed just before the close, that the krona would be floated. The government also announced an economic crisis package which included corporate tax cuts.

Exporters and forestry shares gained the most, as the Affärsvärlden general index rose 29.90 to 754.8 and turnover surged to SKr1.25bn from SKr836m. Swedish shares traded in London rose further in the afternoon.

Astra, the most heavily traded share, saw its B shares rise SKr19 to SKr62 while Ericsson B shares firmed SKr10 to SKr142.

OSLO's all-share index closed at the day's high of 342.13, up 4.11, on speculation that Sweden's move might force Norway to devalue its currency.

PARIS dropped on heavy selling, the most prominent seller being James Capel. James Capel declined to comment, other than that it had executed a very large sell order, but there was talk that the broker had sold 260m worth of French equities on behalf of either a UK or a US client. The CAC 40 index fell 36.84 or 2.1 per cent to 1,722.33 in heavy turnover of FF24.4bn, up from FF17.85m.

Euro Disney dropped FF5.6 or 6.8 per cent to FF56.83 as investors questioned the theme park's decision to pay a dividend for the year ended September, during which it had made a loss of FF11.85m.

Elf dropped FF13.40 to FF31.20 on reports of a big seller in the market, while BSN fell FF14 to FF13.83 as another broker downgraded its forecast for the food company.

FRANKFURT saw a recovery in Daimler after its fall earlier in the week and a fall in BASF on poor interim results. The DAX index added 6.60 to 1,551.65 in turnover of DM5.8m

after Tuesday's DM5.1bn. The market was closed on Wednesday.

Daimler may have avoided serious scrutiny, with interest overshadowed yesterday by events in Sweden. After falling earlier this week on a forecast of a 22 per cent drop in 1992 profit, it recouped DM6.20 to DM54.60.

Lufthansa rewarded its fans, rising DM5.50 to DM105.80 on news that in the third quarter

of 1992 its operating result had practically broken even and that earnings turned positive in September for the first time.